Merida Industry Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 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, 2017 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements". Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

MERIDA INDUSTRY CO., LTD.

By:

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Michael S. T. Tseng
President

March 27, 2018

Deloitte.

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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 (the Group), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission 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 base 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, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are as follows:

<u>Impairment assessment of trade receivables</u>

As of December 31, 2017, the of the Group's total trade receivables, in New Taiwan dollar ("NT$"), was NT$1,700,548 in thousands. Refer to Notes 4, 5 and 8 to the accompanying consolidated financial statements for disclosures related to receivables. The Group sells its products through a distributor from each country of operation. The recovery of trade receivables is dependent on the financial situation of the respective distributors. The impairment assessment of trade receivables is based on objective evidence, like delayed payments from distributors, and also involves the estimation of future cash flows by management. The impairment assessment is subject to judgment by management, which has a significant level of uncertainty, and the result of the assessment could also affect the consolidated financial statements. Thus, it is identified as a key audit matter.

Our main audit procedures performed in respect of the above area included the followings:

1. Understood the policy of the impairment assessment of trade receivables.

2. Evaluated the major distributor's credit policy and the rationality of the credit line as well as the historical payment situation.

3. Sampled and verified the reasonableness for the aging of amounts due at the balance sheet date and confirmed the accuracy of the impairment of trade receivables.

4. Compared the aging of receivables in the current year and prior years and reviewed the level of bad debt write-offs in the current year and the prior year to assess the reasonableness of the provision.

<u>Inventory valuation</u>

As of December 31, 2017, the Group's inventory was NT$3,496,676 thousand. Refer to Notes 4, 5 and 9 to the consolidated financial statements for disclosures related to inventory. The inventory is stated at the lower of cost or net realizable value. Determining the net realizable value inputs and estimating the consumption of inventory aging is subject to judgment. As a result, inventory valuation is identified as a key audit matter.

Our main audit procedures performed in respect of the above area included the followings:

1. Understood the process and evidence that the management used in estimating the net realizable value and the inventory obsolescence aging ratio.

2. Assessed the reasonableness of estimated selling prices, the variable sales to expense ratio and the inventory obsolescence aging ratio.

3. Checked the accuracy of inventory aging and the calculation of the net realizable value.

4. Observed the year-end inventory counts and evaluated the condition of the inventory to assess the adequacy of the provision for damaged stock.

Other Matter

We did not audit the financial statements of a partial-investee accounted for by using the equity method as of and for the years ended December 31, 2017 and 2016, but such financial statements were audited by other auditors, whose reports have been furnished to us. The balance of the investments accounted for by using the equity method was 40% (NT$8,423,339 thousand) and 41% (NT$8,931,463 thousand) of the Group's consolidated total assets as of December 31, 2017 and 2016, respectively. The share of profit (loss) of associates was (43)% (NT$(86,042) thousand) and 57% (NT$757,871 thousand) of the Group's consolidated comprehensive income for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 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 supervisors, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the auditing standards generally accepted in the 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, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shu-Chin Chiang and Lie-Dong Wu.

Deloitte & Touche
Taichung, Taiwan
Republic of China

March 27, 2018

<u>*Notice to Readers*</u>

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)

	December 31, 2017		December 31, 2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 3,146,748	15	$ 3,908,524	18
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	442,093	2	1,173	-
Debt investments with no active market - current (Note 6)	-	-	46,160	-
Notes receivable (Notes 4 and 5)	29,306	-	22,400	-
Trade receivables (Notes 4, 5 and 8)	349,382	2	400,885	2
Trade receivables from related parties (Notes 4, 5, 8 and 27)	1,351,166	6	1,263,011	6
Other receivables (Notes 4, 22 and 27)	62,913	-	65,832	-
Inventories (Notes 4, 5, 9 and 28)	3,496,676	17	3,222,724	15
Other current assets (Notes 4 and 16)	159,506	1	95,618	1
Total current assets	9,037,790	43	9,026,327	42
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4 and 10)	151,081	1	157,266	1
Financial assets measured at cost - non-current (Notes 4 and 11)	3,400	-	3,400	-
Investments accounted for using the equity method (Notes 4 and 13)	8,720,220	42	9,190,228	43
Property, plant and equipment (Notes 4, 14 and 28)	2,515,796	12	2,575,013	12
Investment properties (Notes 4 and 15)	36,538	-	37,106	-
Intangible assets (Note 4)	39,411	-	44,156	-
Deferred tax assets (Notes 4 and 22)	77,807	-	113,727	-
Prepayments for equipment	18,580	-	85,325	-
Long-term prepayments for leases (Notes 4 and 16)	337,301	2	352,451	2
Other non-current assets	7,622	-	10,483	-
Total non-current assets	11,907,756	57	12,569,155	58
TOTAL	$ 20,945,546	100	$ 21,595,482	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank loans (Notes 17 and 28)	$ 1,456,407	7	$ 1,116,598	5
Trade payables	3,934,696	19	3,584,897	17
Trade payables to related parties (Note 27)	45,695	-	58,671	-
Other payables (Note 18)	738,960	3	799,510	4
Current tax liabilities (Notes 4 and 22)	149,022	1	249,594	1
Current portion of long-term bank loans (Notes 17 and 28)	108,223	-	112,911	-
Other current liabilities - other	116,323	1	180,360	1
Total current liabilities	6,549,326	31	6,102,541	28
NON-CURRENT LIABILITIES				
Long-term bank loans (Notes 17 and 28)	227,294	1	346,797	2
Deferred tax liabilities (Notes 4 and 22)	1,921,704	9	1,958,246	9
Net defined benefit liabilities (Notes 4 and 19)	158,629	1	102,471	-
Guarantee deposits received	7,219	-	8,445	-
Total non-current liabilities	2,314,846	11	2,415,959	11
Total liabilities	8,864,172	42	8,518,500	39
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Common shares	2,989,838	14	2,989,838	14
Capital surplus				
Share premiums from issuance of common shares	416,290	2	416,290	2
Capital surplus from investments accounted for using equity method	258	-	215	-
Retained earnings				
Legal reserve	2,232,113	11	2,040,218	10
Special reserve	264,429	1	17,462	-
Unappropriated earnings	6,489,871	31	7,386,442	34
Other equity	(807,624)	(4)	(264,429)	(1)
Total equity attributable to owners of the Corporation	11,585,175	55	12,586,036	59
NON-CONTROLLING INTERESTS	496,199	3	490,946	2
Total equity	12,081,374	58	13,076,982	61
TOTAL	$ 20,945,546	100	$ 21,595,482	100

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

(With Deloitte & Touche auditors' report dated March 27, 2018)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
SALES (Notes 4 and 27)	$ 22,396,174	100	$ 22,901,472	100
COST OF GOODS SOLD (Notes 9, 21 and 27)	19,715,439	88	19,610,564	86
GROSS PROFIT	2,680,735	12	3,290,908	14
REALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES	81,895	1	195,543	1
REALIZED GROSS PROFIT	2,762,630	13	3,486,451	15
OPERATING EXPENSES (Note 21)				
Selling and marketing expenses	1,086,962	5	1,227,334	6
General and administrative expenses	646,842	3	720,056	3
Total operating expenses	1,733,804	8	1,947,390	9
PROFIT FROM OPERATIONS	1,028,826	5	1,539,061	6
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 27)	40,758	-	51,800	-
Other income	124,413	-	75,888	-
Gains on disposal of investments (Note 4)	16,589	-	-	-
Interest expense	(27,040)	-	(22,661)	-
Other expenses	(18,619)	-	(36,040)	-
Net foreign exchange gains (losses) (Note 4)	(63,455)	-	27,938	-
Share of profit (loss) of associates (Note 4)	(65,398)	-	795,109	4
Total non-operating income and expenses	7,248	-	892,034	4
PROFIT BEFORE INCOME TAX	1,036,074	5	2,431,095	10
INCOME TAX EXPENSE (Notes 4 and 22)	237,600	1	515,651	2
NET PROFIT FOR THE YEAR	798,474	4	1,915,444	8

(Continued)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	Year Ended December 31			
	2017		2016	
	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 19)	$ (71,246)	-	$ 24,245	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	12,111	-	(4,122)	-
	(59,135)	-	20,123	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(550,104)	(3)	(596,968)	(2)
Unrealized gain on available-for-sale financial assets	11,049	-	1,679	-
	(539,055)	(3)	(595,289)	(2)
Other comprehensive loss for the year, net of income tax	(598,190)	(3)	(575,166)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 200,284	1	$ 1,340,278	6
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	$ 797,361	4	$ 1,918,953	8
Non-controlling interests	1,113	-	(3,509)	-
	$ 798,474	4	$ 1,915,444	8
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Owners of the Corporation	$ 195,031	1	$ 1,385,047	6
Non-controlling interests	5,253	-	(44,769)	-
	$ 200,284	1	$ 1,340,278	6
EARING PER SHARE				
Basic	$ 2.67		$ 6.42	
Diluted	$ 2.66		$ 6.39	

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

(With Deloitte & Touche auditors' report dated March 27, 2018) (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										
		Capital Surplus (Note 20)		Retained Earnings (Note 20)							
	Common Shares (Note 20)	Share Premium from Issuance of Common Shares	Capital Surplus from Investments Accounted for Using Equity Method	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain on Available-for-sale Financial Assets	Total	Non-controlling Interests	Total
BALANCE AT JANUARY 1, 2016	$ 2,989,838	$ 416,290	$ 215	$ 1,736,191	$ 17,462	$ 7,395,804	$ 277,836	$ 11,764	$ 12,845,400	$ 527,882	$ 13,373,282
Appropriation of 2015 earnings											
Legal reserve	-	-	-	304,027	-	(304,027)	-	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(1,644,411)	-	-	(1,644,411)	-	(1,644,411)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	7,833	7,833
Net profit (loss) for the year ended December 31, 2016	-	-	-	-	-	1,918,953	-	-	1,918,953	(3,509)	1,915,444
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-	20,123	(555,708)	1,679	(533,906)	(41,260)	(575,166)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	1,939,076	(555,708)	1,679	1,385,047	(44,769)	1,340,278
BALANCE AT DECEMBER 31, 2016	2,989,838	416,290	215	2,040,218	17,462	7,386,442	(277,872)	13,443	12,586,036	490,946	13,076,982
Appropriation of 2016 earnings											
Legal reserve	-	-	-	191,895	-	(191,895)	-	-	-	-	-
Special reserve	-	-	-	-	246,967	(246,967)	-	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(1,195,935)	-	-	(1,195,935)	-	(1,195,935)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	43	-	-	-	-	-	43	-	43
Net profit for the year ended December 31, 2017	-	-	-	-	-	797,361	-	-	797,361	1,113	798,474
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(59,135)	(554,244)	11,049	(602,330)	4,140	(598,190)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	738,226	(554,244)	11,049	195,031	5,253	200,284
BALANCE AT DECEMBER 31, 2017	$ 2,989,838	$ 416,290	$ 258	$ 2,232,113	$ 264,429	$ 6,489,871	$ (832,116)	$ 24,492	$ 11,585,175	$ 496,199	$ 12,081,374

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

(With Deloitte & Touche auditors' report dated March 27, 2018)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 1,036,074	$ 2,431,095
Adjustments for:		
Depreciation expenses	243,019	240,684
Amortization expenses	9,666	7,299
Recognition (reversal) of provisions	3,365	(10,431)
Interest expense	27,040	22,661
Interest income	(40,758)	(51,800)
Dividend income	(5,909)	(5,783)
Share of (profit) loss of associates	65,398	(795,109)
Losses on disposal of property, plant and equipment	2,575	3,798
Gain on disposal of investments	(16,589)	-
Reversal of write-downs of inventories	(8,236)	(156,638)
Realized gain on transactions with associates	(81,895)	(195,543)
Net (gain) loss on foreign currency exchange	(28,984)	6,285
Amortization of long-term prepayments for leases	8,119	8,754
Changes in operating assets and liabilities		
Financial assets held for trading	(440,920)	501,256
Notes receivable	(6,906)	1,647
Trade receivables	(58,185)	319,079
Other receivables	(1,210)	544
Inventories	(259,425)	15,811
Other current assets	(67,289)	32,079
Trade payables	345,801	(88,213)
Other payables	(46,448)	19,660
Other current liabilities	(63,994)	24,551
Net defined benefit liabilities	(15,088)	(236,935)
Cash generated from operations	599,221	2,094,751
Interest received	42,632	73,422
Dividends received	15,789	16,699
Interest paid	(26,496)	(23,534)
Income tax paid	(325,203)	(448,414)
Net cash generated from operating activities	305,943	1,712,924
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	33,823	-
Proceeds from sale of debt investments with no active market	43,557	199,271
Acquisitions of associates	(10,598)	-
Net cash inflow on acquisitions of subsidiaries (Note 24)	-	36,171
Payments for property, plant and equipment	(95,974)	(123,531)
Proceeds from disposal of property, plant and equipment	3,003	4,516
Decrease in refundable deposits	200	8,095

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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	
	2017	**2016**
Payments for intangible assets	$ (4,584)	$ (17,120)
Decrease in other non-current assets	2,246	26,314
Increase in prepayments for equipment	(45,788)	(7,084)
Net cash generated from (used in) investing activities	(74,115)	126,632
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	334,789	-
Repayments of short-term bank loans	-	(87,137)
Proceeds from long-term borrowings	16,146	-
Repayments of long-term bank loans	(107,894)	(123,814)
Refund of guarantee deposits received	(593)	(4,266)
Decrease in other non-current liabilities	-	(1,425)
Dividends paid to owners of the Corporation	(1,195,935)	(1,644,411)
Net cash used in financing activities	(953,487)	(1,861,053)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(40,117)	(196,068)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(761,776)	(217,565)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,908,524	4,126,089
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 3,146,748	$ 3,908,524

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

(With Deloitte & Touche auditors' report dated March 27, 2018) (Concluded)

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, hereto forth collectively referred to as 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 27, 2018.

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 FSC

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

<u>Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers</u>

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

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Group, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group, are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Group has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and impairment of goodwill are enhanced. Refer to Note 27.

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

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

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

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

IFRS 9 “Financial Instruments” and related amendments - Classification, measurement and impairment of financial assets

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

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

1) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

2) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or

reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed a preliminary assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

1) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss. Besides this, unlisted shares measured at cost will be measured at fair value instead;

2) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments; and

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

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

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

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

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Impact on assets, liabilities and equity			
Available-for-sale financial assets - non-current	$ 151,081	$ (151,081)	$ -
Financial assets at fair value through profit or loss - current	442,093	151,081	593,174
Financial assets measured at cost - non-current	3,400	(3,400)	-
Financial assets at fair value through other comprehensive income - non-current	-	3,400	3,400
Total effect on assets	$ 596,574	$ -	$ 596,574
Retained earnings	$ 6,489,871	$ 24,492	$ 6,514,363
Other equity	(807,624)	(24,492)	(832,116)
Total effect on equity	$ 5,682,247	$ -	$ 5,682,247

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group has assessed and concluded that the application of IFRS 15 and other standards and interpretations would not have a material impact on the Group's financial position and financial performance.

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

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

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

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

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

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

IFRS 16 “Leases”

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed 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 which are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and 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 twelve months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 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 12, and Tables 7 and 8 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.

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 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. Investment 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 does not from part of carrying amount. Impairment loss is deducted from carrying amount. 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' 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 recognized accumulated depreciation and recognized accumulated impairment loss.

For properties in the course of construction for production, the general or administrative expenses are carried 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 on property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If a lease term is shorter than the assets useful lives, such assets are depreciated over the 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 tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets (excluding goodwill) to determine whether there is any indication that those assets have suffered 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 an acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 26.

ii. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including cash and cash equivalents, debt investments with no active market, notes receivable, trade receivables and other receivables) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within 3 months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

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

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

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

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

For any available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

c) Derecognition of financial assets

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

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

2) Financial liabilities

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

On derecognition of a financial liability in its entirety, 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 foreign exchange forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date 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

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

1) Sale of goods

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

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of material ownership.

2) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that the amount of income can be measured reliably.

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

o. Leasing

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.

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

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 service 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

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

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

2) Deferred tax

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

a. Estimated impairment of trade receivables

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

b. Write-down of inventory

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	**2016**
Cash on hand	$ 2,366	$ 1,962
Checking accounts and demand deposits	2,074,432	3,164,249
Cash equivalents		
Time deposits with original maturities of less than 3 months	1,069,950	742,313
	$ 3,146,748	$ 3,908,524
Time deposit interest rate per annum (%)	0.20-2.02	0.80-1.755

The amounts for time deposits with original maturities of more than 3 months was $46,160 thousand as of December 31, 2016. It was classified to debt investments with no active market - current.

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	**2016**
Financial assets held for trading		
Non-derivative financial assets		
Mutual funds	$ 440,779	$ -
Domestic quoted shares	1,314	1,173
Financial instruments at fair value through profit or loss - current	$ 442,093	$ 1,173

8. TRADE RECEIVABLES

	December 31	
	2017	**2016**
Trade receivables	$ 1,718,114	$ 1,677,168
Less: Allowance for impairment loss	(17,566)	(13,272)
	$ 1,700,548	$ 1,663,896

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. An allowance for impairment loss was recognized based on estimated irrecoverable amounts determined by performing an account aging analysis.

The Group judges the creditworthiness of its customers via credit verifications and investigations to establish a quota for transactions. The Group trades with new customer via advance sales receipts, and monitors any unusual items connected to customer’s operations to decrease its risk of bad debts.

The aging of receivables was as follows:

	December 31	
	2017	2016
Not past due	$ 1,639,058	$ 1,632,445
Less than 3 months	79,056	44,723
	$ 1,718,114	$ 1,677,168

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

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

	December 31	
	2017	2016
Less than 3 months	$ 79,056	$ 44,723

The above aging schedule was based on the number of days past the end of the credit term. The Group charges interest at an agreed upon interest rate for the receivables' past-due balance. If the Group assesses that there has not been a significant change in the credit quality of its customers, then the amounts are still considered recoverable.

The movements of the allowance for doubtful trade receivables were as follows:

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 13,272	$ 22,539
Acquisitions through business combinations	-	2,083
Add: Impairment losses recognized (reversed) on receivables	3,365	(10,431)
Foreign exchange translation gains and losses	929	(919)
Balance at December 31	$ 17,566	$ 13,272

9. INVENTORIES

	December 31	
	2017	2016
Finished goods	$ 2,033,131	$ 1,842,814
Work in progress	598,276	562,446
Raw materials and supplies	802,121	760,306
Inventory in transit	63,148	57,158
	$ 3,496,676	$ 3,222,724

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was $19,715,439 thousand and $19,610,564 thousand, respectively.

The cost of goods sold for the year ended December 31, 2017 and 2016 included a reversal of inventory writes-downs of $8,236 thousand and $156,638 thousand. Previous writes-downs were actively reversed by the Group as a result of depleted inventory. The related amounts were reflected in the cost of goods sold.

Inventories pledged as collateral for bank borrowing are set out in Note 28.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Domestic investments	$ 151,081	$ 157,266

In August 2014, the Group subscribed for 600 thousand common shares of Kuei Meng International Inc. ("Kuei Meng") through private placement; the transfer of the common shares within three years from the acquisition date is prohibited by regulations. The retroactive handling of public issuance procedures of private placements of securities has been authorized by the FSC and has been in place since December 8, 2017. The shares have been publicly trade on the Taipei Exchange since January 2, 2018.

11. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	2016
Overseas unlisted shares	$ 3,400	$ 3,400

Management believed that the above unlisted equity investments held by the Group had fair values which could not be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

		Proportion of Ownership (%)	
		December 31	
Investor	Investee	2017	2016
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 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

Refer to Table 7 and 8 following the Notes to Consolidated Financial Statements for information on the place of incorporation and principal places of business for each subsidiary.

The Corporation acquired 201 thousand common shares of Merida U.K. through cash at $27,716 thousand, and the percentage of ownership held by the Corporation increased to 81%. The Corporation took control over Merida U.K. since September 1, 2016 and included it in the Group's consolidated financial statements.

Except for Merida Benelux, all of the financial statement of subsidiaries have been audited. Management believes that an audit of the financial statements of Merida Benelux would not result in a significant impact on the Group's consolidated financial statements.

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

	Proportion of Ownership and Voting Rights Held by Non-controlling Interests	
	December 31	
Name of Subsidiary	**2017**	**2016**
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	
	2017	**2016**
Current assets	$ 546,747	$ 556,182
Non-current assets	1,180,089	1,294,970
Current liabilities	(496,604)	(391,840)
Non-current liabilities	(217,198)	(348,261)
Equity	$ 1,013,034	$ 1,111,051
Equity attributable to:		
Owners of Merida SAMOA	$ 709,124	$ 777,736
Non-controlling interests of Merida SAMOA	303,910	333,315
	$ 1,013,034	$ 1,111,051

	For the Year Ended December 31	
	2017	**2016**
Revenue	$ 981,997	$ 1,123,826
Net loss for the year	$ (71,926)	$ (40,880)
Other comprehensive income (loss) for the year	59,417	(75,062)
Total comprehensive loss for the year	$ (12,509)	$ (115,942)

(Continued)

	For the Year Ended December 31	
	2017	2016
Loss attributable to:		
Owners of Merida SAMOA	$ (50,348)	$ (28,616)
Non-controlling interests of Merida SAMOA	(21,578)	(12,264)
	$ (71,926)	$ (40,880)
Total comprehensive loss attributable to:		
Owners of Merida SAMOA	$ (8,756)	$ (81,159)
Non-controlling interests of Merida SAMOA	(3,753)	(34,783)
	$ (12,509)	$ (115,942)
Net cash inflow (outflow) from:		
Operating activities	$ (41,292)	$ 80,636
Investing activities	(684)	5,167
Financing activities	(34,387)	39,427
Net cash inflow (outflow)	$ (76,363)	$ 125,230

(Concluded)

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2017	2016
Unlisted shares		
Specialized Bicycle Components, Inc. (“SBC”)	$ 8,423,339	$ 8,931,463
SAIL & SURF Produktion-und Handelsgesellschaft m.b.H. (“SAIL & SURF”)	85,564	76,285
Merida Bikes SWE, S.A (“Merida Bikes SWE”)	65,826	62,176
Miyata Cycle Co., Ltd. (” Miyata”)	35,572	34,501
Merida Czech s.r.o (“Merida Czech”)	34,670	28,818
Stians Sport AS (“Stians”)	30,351	29,743
Merida Slovakia s.r.o (“Merida Slovakia”)	22,365	20,174
Merida Korea Inc. (“Merida Korea”)	11,203	-
Merida Italy S.r.l (“Merida Italy”)	7,339	3,692
WideDoctor (International) Enterprise Co., Ltd. (“WideDoctor”)	3,991	3,376
	$ 8,720,220	$ 9,190,228

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

	December 31	
	2017	2016
SBC	35%	35%
SAIL & SURF	40%	40%
Merida Bikes SWE	36%	36%
Miyata	45%	45%
Merida Czech	45%	45%
Stians	34%	34%
Merida Slovakia	30%	30%
Merida Korea	40%	-
Merida Italy	27%	30%
WideDoctor	26%	26%

The Group acquired 40% of the ownership of Merida Korea through cash at $10,598 thousand in February 2017.

Merida Italy increased its capital with cash in February 2017, but the Group did not subscribe for additional new shares of Merida Italy, which reduced its continuing interest from 30% to 27%.

Refer to Table 7 “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	
	2017	2016
The Group's share of:		
Profit (loss) for the year	$ (65,398)	$ 795,109
Other comprehensive income (loss) for the year	176,327	(116,883)
Total comprehensive income for the year	$ 110,929	$ 678,226

Except for Merida Italy and Merida Korea, 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 accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of Merida Italy and Merida Korea which have not been audited.

14. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2017						
	Beginning Balance	Acquisitions Through Business Combination	Additions	Disposals	Reclassified Amount	Translation Adjustments	Ending Balance
Cost							
Land	$ 475,670	$ -	$ -	$ -	$ -	$ 89	$ 475,759
Buildings and improvements	2,078,470	-	22,268	(3,351)	86,197	(14,270)	2,169,314
Machinery and equipment	1,097,095	-	44,110	(13,822)	112,577	(13,737)	1,226,223
Transportation equipment	25,611	-	478	(174)	-	852	26,767
Miscellaneous equipment	265,363	-	21,904	(42,381)	519	235	245,640
Construction in progress	82,601	-	7,214	-	(86,197)	-	3,618
	4,024,810	$ -	$ 95,974	$ (59,728)	$ 113,096	$ (26,831)	4,147,321

(Continued)

	For the Year Ended December 31, 2017						
	Beginning Balance	Acquisitions Through Business Combination	Additions	Disposals	Reclassified Amount	Translation Adjustments	Ending Balance
Accumulated depreciation and impairment							
Buildings and improvements	$ 725,645	$ -	$ 95,579	$ (3,228)	$ -	$ (1,905)	$ 816,091
Machinery and equipment	543,847	-	89,199	(9,181)	-	(5,464)	618,401
Transportation equipment	14,448	-	3,340	(174)	-	456	18,070
Miscellaneous equipment	165,857	-	54,333	(41,567)	-	340	178,963
	1,449,797	$ -	$ 242,451	$ (54,150)	$ -	$ (6,573)	1,631,525
	$ 2,575,013						$ 2,515,796

(Concluded)

	For the Year Ended December 31, 2016						
	Beginning Balance	Acquisitions Through Business Combination	Additions	Disposals	Reclassified Amount	Translation Adjustments	Ending Balance
Cost							
Land	$ 475,747	$ -	$ -	$ -	$ -	$ (77)	$ 475,670
Buildings and improvements	2,202,245	-	11,256	(8,206)	-	(126,825)	2,078,470
Machinery and equipment	1,129,772	-	49,962	(20,832)	18,187	(79,994)	1,097,095
Transportation equipment	27,433	1,145	8,404	(9,378)	-	(1,993)	25,611
Miscellaneous equipment	275,140	13,353	47,569	(56,128)	-	(14,571)	265,363
Construction in progress	85,374	-	16,116	-	(18,187)	(702)	82,601
	4,195,711	$ 14,498	$ 133,307	$ (94,544)	$ -	$ (224,162)	4,024,810
Accumulated depreciation and impairment							
Buildings and improvements	675,926	$ -	$ 94,263	$ (7,144)	$ -	$ (37,400)	725,645
Machinery and equipment	507,529	-	92,895	(18,509)	-	(38,068)	543,847
Transportation equipment	18,010	228	3,371	(5,977)	-	(1,184)	14,448
Miscellaneous equipment	170,622	9,640	49,588	(54,600)	-	(9,393)	165,857
	1,372,087	$ 9,868	$ 240,117	$ (86,230)	$ -	$ (86,045)	1,449,797
	$ 2,823,624						$ 2,575,013

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful life of the asset:

Buildings and improvements	
Main buildings	20-60 years
Ancillary work	20-50 years
Machinery and equipment	3-15 years
Transportation equipment	4-5 years
Miscellaneous equipment	3-25 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 28.

15. INVESTMENT PROPERTIES

	December 31	
	2017	2016
Land	$ 20,309	$ 20,309
Buildings	23,977	23,977
Parking garages	6,953	6,953
Air-conditioning units	3,068	3,068
	54,307	54,307
Less: Accumulated depreciation and impairment	(17,769)	(17,201)
	$ 36,538	$ 37,106

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

Buildings	55 years
Parking garages	49 years

The fair value of investment properties for the years ended December 31, 2017 and 2016 was $41,935 thousand and $68,527 thousand, respectively. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

16. PREPAYMENTS FOR LEASES

Merida China prepaid RMB10,389 thousand and RMB620 thousand to acquire the right to use land of Bao'an in Shenzhen, China. The land tenure is effective from October 1, 1990 through September 30, 2040.

Merida Shandong signed an agreement with the management committee of Dezhou Economic And Technological Development Zone in Shandong, China in November 2006 to acquire 89,434 square meters of right of use land from the Development Zone for 50 years. The acquisition cost was RMB6,240 thousand.

Merida Jiangsu signed an agreement for the stated-owned construction land use rights with Nantong Bureau of Land And Resources in Jiangsu, China in December 2012 so as to acquire the rights of use of 154,810 square meters of land from the Nantong Economic and Technological Development Zone for 50 years. The acquisition cost was RMB73,530 thousand.

The above mentioned land use is for constructing buildings, office and living facilities, etc.

17. BORROWINGS

a. Short-term bank borrowings

	December 31	
	2017	**2016**
Usance letters of credit - due after 180 days of acceptance	$ 731,242	$ 642,607
Line of credit borrowings	716,307	440,946
Secured borrowings (Note 28)	8,858	33,045
	$ 1,456,407	$ 1,116,598
Rate of interest per annum (%)		
Usance letters of credit	No more than 2.14	No more than 2.06
Line of credit borrowings	0.90-5.133	0.90-2.46
Secured borrowings	2.56-4.84	2.56-3.81

b. Long-term bank borrowings

	December 31	
	2017	2016
Unsecured loans - due in September 2020, from May 2016, repayable every 6 months in 10 equal installments	$ 319,834	$ 459,708
Unsecured loans (Note 28) - due in September 2021, from August 2017, repayable every month in equal installments	15,683	-
	335,517	459,708
Less: Current portion	(108,223)	(112,911)
Long-term borrowings	$ 227,294	$ 346,797
Rate of interest per annum (%)	2.17-3.61	1.75

18. OTHER PAYABLES

	December 31	
	2017	2016
Payables for salaries and bonus	$ 151,894	$ 262,738
Payables for compensation to employees	88,492	158,237
Payables for remuneration of directors and supervisors	28,760	68,569
Others	469,814	309,966
	$ 738,960	$ 799,510

19. 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 and Merida U.K. 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 they aren't 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	
	2017	**2016**
Present value of defined benefit obligation	$ 651,149	$ 584,749
Fair value of plan assets	(492,520)	(482,278)
Net defined benefit liability	$ 158,629	$ 102,471

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities**
Balance at January 1, 2016	$ 608,764	$ (245,113)	$ 363,651
Service costs			
Current service costs	11,315	-	11,315
Net interest expense (income)	8,998	(5,038)	3,960
Recognized in profit or loss	20,313	(5,038)	15,275
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	2,388	2,388
Actuarial gain - changes in financial assumptions	(15,486)	-	(15,486)
Actuarial gain - experience adjustments	(11,147)	-	(11,147)
Recognized in other comprehensive income	(26,633)	2,388	(24,245)
Contributions from the employer	-	(252,210)	(252,210)
Benefits paid	(17,695)	17,695	-
Balance at December 31, 2016	584,749	(482,278)	102,471
Service costs			
Current service costs	9,649	-	9,649
Net interest expense (income)	10,059	(8,340)	1,719
Recognized in profit or loss	19,708	(8,340)	11,368
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	3,913	3,913
Actuarial loss - changes in financial assumptions	31,819	-	31,819
Actuarial loss - experience adjustments	35,514	-	35,514
Recognized in other comprehensive income	67,333	3,913	71,246
Contributions from the employer	-	(26,456)	(26,456)
Benefits paid	(20,641)	20,641	-
Balance at December 31, 2017	$ 651,149	$ (492,520)	$ 158,629

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:

	December 31	
	2017	**2016**
Discount rate(s)	1.25%	1.75%
Expected rate(s) of salary increase	2.00%	2.00%

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	
	2017	**2016**
Discount rate(s)		
0.50% increase	$ (31,819)	$ (29,260)
0.50% decrease	$ 34,288	$ 31,581
Expected rate(s) of salary increase		
0.50% increase	$ 33,865	$ 31,351
0.50% decrease	$ (31,752)	$ (29,337)

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	
	2017	**2016**
Expected contributions to the plans for the next year	$ 9,163	$ 8,400
Average duration of the defined benefit obligation	10.2 years	10.5 years

20. EQUITY

a. Common shares

	December 31	
	2017	2016
Number of shares authorized (in thousands)	350,000	350,000
Shares authorized	$ 3,500,000	$ 3,500,000
Number of shares issued and fully paid (in thousands)	298,984	298,984
Shares issued	$ 2,989,838	$ 2,989,838

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 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

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 22, 2016 and, in that meeting, resolved amendments to the Corporation's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on the distribution of employees' compensation.

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 and supervisors after the amendment, refer to Note 21.

According to the dividend policy of the Corporation, the total dividends distributed shall be 10% to 80% of the distributable retained earnings of the year. In addition, cash dividends in excess of 10% of the total dividends shall be 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 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.

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

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings in June 2017 and 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For the Year Ended December 31		For the Year Ended December 31	
	2016	2015	2016	2015
Legal reserve	$ 191,895	$ 304,027		
Special reserve	246,967	-		
Cash dividends	1,195,935	1,644,411	$ 4.0	$ 5.5

The appropriation of earnings for 2017 had been proposed by the Corporation's board of directors on March 27, 2018. The appropriations and dividend per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 79,736	
Special reserve	543,195	
Cash dividends	597,968	$ 2.0

The appropriation of earnings for 2017 are subject to the resolution of shareholders' meetings to be held on June 26, 2018.

21. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION AND AMORTIZATION EXPENSES

	Operating Costs	Operating Expenses	Total
For the Year Ended December 31, 2017			
Short-term employee benefits	$ 1,052,518	$ 514,023	$ 1,566,541
Post-employment benefits			
Defined contribution plans	38,567	23,566	62,133
Defined benefit plan	8,966	2,402	11,368
Other employee benefits	28,753	48,859	77,612
Depreciation expenses	166,644	76,375	243,019
Amortization expenses	2	9,664	9,666
For the Year Ended December 31, 2016			
Short-term employee benefits	1,217,810	548,363	1,766,173
Post-employment benefits			
Defined contribution plans	88,290	32,698	120,988
Defined benefit plan	12,078	3,197	15,275
Other employee benefits	26,785	80,765	107,550
Depreciation expenses	176,703	63,981	240,684
Amortization expenses	2	7,297	7,299

Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors 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 and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016, which have been approved by the Corporation's board of directors on March 27, 2018 and 2017, respectively, were as follows:

	For the Year Ended December 31			
	2017		2016	
Cash	**Accrual Rate**	**Amount**	**Accrual Rate**	**Amount**
Employees' compensation	8%	$ 88,492	6%	$ 158,237
Remuneration of directors and supervisors	2.6%	28,760	2.6%	68,569

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 and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the TWSE.

22. TAXES

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

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	$ 199,276	$ 333,578
Income tax of unappropriated earnings	30,428	104,483
Adjustments for prior years	(2,897)	322
	226,807	438,383
Deferred tax		
In respect of the current year	10,793	77,268
Income tax expense recognized in profit or loss	$ 237,600	$ 515,651

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

	For the Year Ended December 31	
	2017	2016
Income tax expense calculated at the statutory rate	$ 143,976	$ 416,565
Nondeductible expenses in determining taxable income	10,759	32,818
Others	(11,814)	-
Tax-exempt income	(4,128)	(22,451)

(Continued)

	For the Year Ended December 31	
	2017	2016
Income tax on unappropriated earnings	$ 30,428	$ 104,483
Unrecognized deductible temporary differences	(2,341)	(31,195)
Unrecognized loss carryforwards	73,617	15,109
Adjustments for prior years' tax	(2,897)	322
Income tax expense recognized in profit or loss	$ 237,600	$ 515,651

(Concluded)

The applicable corporate income tax rate used by group entities in the ROC is 17%, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other Group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by 13,731 thousand and 321,312 thousand, respectively, in 2018.

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

b. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax assets		
Tax refund receivable (recognized as other receivables)	$ -	$ 2,366
Current tax liabilities		
Income tax payable	$ 149,022	$ 249,594

c. The changes of deferred tax assets and liabilities

	For the Year Ended December 31, 2017				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized intercompany profit	$ 51,276	$ (13,893)	$ -	$ -	$ 37,383
Provisions	29,371	(28,675)	-	(696)	-
Defined benefit obligation	14,834	(2,674)	12,111	-	24,271
Unrealized impairment loss on assets	11,367	(744)	-	-	10,623
Unrealized provision for loss on inventory	6,879	(1,349)	-	-	5,530
	$ 113,727	$ (47,335)	$ 12,111	$ (696)	$ 77,807

	For the Year Ended December 31, 2017				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax liabilities					
Temporary differences					
Investments accounted for using equity method	$ 1,849,273	$ (29,301)	$ -	$ -	$ 1,819,972
Reserve for land revaluation increment tax	100,934	-	-	-	100,934
Unrealized foreign currency exchange gains	8,039	(7,241)	-	-	798
	$ 1,958,246	$ (36,542)	$ -	$ -	$ 1,921,704

	For the Year Ended December 31, 2016				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized intercompany profit	$ 90,428	$ (39,152)	$ -	$ -	$ 51,276
Defined benefit obligation	59,337	(40,381)	(4,122)	-	14,834
Unrealized provision for loss on inventory	16,906	(10,027)	-	-	6,879
Unrealized impairment loss on assets	11,367	-	-	-	11,367
Provisions	-	30,848	-	(1,477)	29,371
	$ 178,038	$ (58,712)	$ (4,122)	$ (1,477)	$ 113,727
Deferred tax liabilities					
Temporary differences					
Investments accounted for using equity method	$ 1,832,563	$ 16,710	$ -	$ -	$ 1,849,273
Reserve for land revaluation increment tax	100,934	-	-	-	100,934
Unrealized foreign currency exchange gains	6,193	1,846	-	-	8,039
	$ 1,939,690	$ 18,556	$ -	$ -	$ 1,958,246

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

	December 31	
	2017	2016
Loss carryforwards	$ 354,714	$ 57,843
Deductible temporary difference	62,573	72,951
	$ 417,287	$ 130,794

e. Integrated income tax of the Corporation

	December 31	
	2017	**2016**
Unappropriated earnings generated before January 1, 1998	$ - (Note)	$ -
Shareholder-imputed credits account	$ 831,735 (Note)	$ 755,597

	For the Year Ended December 31	
	2017	**2016**
Creditable ratio for distribution of earnings	(Note)	13.44%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

f. Income tax assessments

The tax returns of the Corporation through 2013 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

	Net profit Attributable to Owners of the Corporation	**Number of Shares**	**Earnings Per Share (NT$)**
For the Year Ended December 31, 2017			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	$ 797,361	298,983,800	$ 2.67
Effect of potentially dilutive common shares:			
Employees' compensation	-	946,450	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	$ 797,361	299,930,250	$ 2.66
For the Year Ended December 31, 2016			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	$ 1,918,953	298,983,800	$ 6.42
Effect of potentially dilutive common shares:			
Employees' compensation	-	1,462,527	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	$ 1,918,953	300,446,327	$ 6.39

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.

24. BUSINESS COMBINATIONS

a. Subsidiaries acquired

Name of Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred (Cash)
Merida U.K.	Sale of bicycles	September 1, 2016	34	$ 27,716

Merida U.K. was acquired in order to expand the local bicycle market.

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

Current assets	
Cash and cash equivalents	$ 63,887
Trade receivables	44,988
Inventories	91,083
Other current assets	2,321
Non-current assets	
Property, plant and equipment	4,630
Other non-current assets	208
Current liabilities	
Short-term bank borrowings	(157,622)
Trade and other payables	(4,128)
Current tax liabilities	(2,028)
Non-current liabilities	
Other non-current liabilities	(1,425)
	$ 41,914

c. Goodwill arising on acquisitions

	Merida U.K.
Consideration transferred	$ 27,716
Less: Fair value of identifiable net assets acquired	(14,232)
Goodwill recognized on acquisition	$ 13,484

Goodwill is the control premium obtained when Merida U.K. was acquired. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

d. Net cash inflow on acquisitions of subsidiaries

	Merida U.K.
Consideration paid in cash	$ 27,716
Less: Cash and cash equivalent balances acquired	(63,887)
	$ (36,171)

25. 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.

26. FINANCIAL INSTRUMENTS

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

Except when the fair value of financial assets measured at cost cannot be reliably measured, 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

1) The Group's financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value using Level 1 inputs.

The retroactive handling of public issuance procedures of private placements of securities has been authorized by the FSC for Kuei Meng and has been in place since December 8, 2017. There are transfers from Level 2 to Level 1 for fair value measurement.

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

Financial Instruments	Valuation Techniques and Inputs
Derivatives and listed private securities - ROC	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. The fair values of listed private securities - ROC are determined using option pricing models.

c. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Fair value through profit or loss		
Held for trading	$ 442,093	$ 1,173
Loans and receivables	4,939,515	5,704,446
Available-for-sale financial assets	151,081	157,266
Financial assets measured at cost	3,400	3,400
Financial liabilities		
Amortized cost	6,511,275	6,019,384

The balance of financial assets above include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable and trade and other receivables.

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

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including 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.

1) 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.

a) Foreign currency risk

Some of the Group's sales and purchases are denominated in foreign currencies. Consequently, the Group is exposed 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 30.

Sensitivity analysis

The Group was mainly exposed to the USD.

Assuming a 1% increase movement in the levels of the NTD against the USD, the pre-tax profit for the years ended December 31, 2017 and 2016 would have decreased by $23,161 thousand and $32,386 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, 2017 and 2016.

b) 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	
	2017	**2016**
Fair value interest rate risk		
Financial assets	$ 1,069,950	$ 788,473
Financial liabilities	603,437	256,128
Cash flow interest rate risk		
Financial assets	2,074,407	3,164,249
Financial liabilities	1,188,487	1,320,178

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, 2017 and 2016 would have decreased by $2,215 thousand and $4,610 thousand, respectively.

2) 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:

a) The carrying amount of the respective recognized financial assets as stated in the balance sheets; and

b) The amount of contingent liabilities in relation to financial guarantees issued by the Group.

The Group 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 and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The Group's concentration of credit risk was mainly from customers A, which accounted for 45% and 49% of the total trade receivables as of December 31, 2017 and 2016, respectively.

3) Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the Group had available unutilized bank loan facilities of $5,350,952 thousand and $5,740,531 thousand, respectively.

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed when 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 and Less Than 1 Year	1-2 Years	2+ Years
December 31, 2017			
Non-interest bearing	$ 4,719,351	$ -	$ -
Variable interest rate liabilities	961,193	108,223	119,071
Fixed interest rate liabilities	603,437	-	-
	$ 6,283,981	$ 108,223	$ 119,071
December 31, 2016			
Non-interest bearing	$ 4,443,078	$ -	$ -
Variable interest rate liabilities	973,381	112,911	233,886
Fixed interest rate liabilities	256,128	-	-
	$ 5,672,587	$ 112,911	$ 233,886

27. 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

Related Party	Relationship with the Consolidated Company
SBC Group	Associates
SAIL & SURF	Associates
Merida Bikes SWE	Associates
Miyata	Associates
Stians	Associates
Merida Sverige AB	Associates
Merida Czech	Associates
Merida Slovakia	Associates
Merida Korea	Associates
Merida Italy	Associates
Rai Bi Bicycle Co., Ltd.	Others
Cheng Shin Rubber Industry Co., Ltd. ("Cheng Shin")	Others
Cheng Shin Rubber (Xiamen) Ind., Ltd. ("Cheng Shin (Xiamen)")	Others
Tianjin Tafeng Rubber Industry Co., Ltd. ("Tianjin Tafeng")	Others

b. Sales of goods

	For the Year Ended December 31	
Related Parties Category/Names	2017	2016
Trade receivables		
Associates		
SBC Group	$ 14,514,742	$ 13,307,433
Others	1,817,752	1,687,961
	16,332,494	14,995,394
Others	2,404	2,741
	$ 16,334,898	$ 14,998,135

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

c. Purchase of goods

Related Parties Category	For the Year Ended December 31	
	2017	2016
Others	$ 265,122	$ 400,421
Associates	360	1,526
	$ 265,482	$ 401,947

The purchasing price is quoted based on market prices.

d. Receivables from related parties

Related Parties Category/Names	December 31	
	2017	2016
Trade receivables		
Associates		
SBC Group	$ 772,503	$ 829,616
Others	578,663	433,395
	$ 1,351,166	$ 1,263,011
Other receivables		
Associates	$ 3,263	$ 5,657
Others	218	223
	$ 3,481	$ 5,880

e. Payables to related parties

Related Parties Category	December 31	
	2017	2016
Trade payables		
Others	$ 45,545	$ 58,495
Associates	150	176
	$ 45,695	$ 58,671

f. Other transactions with related parties

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

Related Parties Category	For the Year Ended December 31	
	2017	2016
Associates	$ 4,103	$ 4,898

2) Interest income

Related Parties Category	For the Year Ended December 31 2017	2016
Associates		
Merida Czech	$ 4,389	$ 3,792
Others	5,277	7,471
	$ 9,666	$ 11,263

The Group receives interests from overdue trade receivables at an interest rate agreed upon in the terms of the transaction.

g. Compensation of key management personnel

	For the Year Ended December 31 2017	2016
Short-term employee benefits	$ 55,490	$ 97,632
Post-employment benefits	481	732
	$ 55,971	$ 98,364

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

28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank loans:

	December 31 2017	2016
Inventory	$ 21,811	$ 35,393
Property, plant and equipment	15,436	7,701
	$ 37,247	$ 43,094

29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

a. As of December 31, 2017 and 2016, unused letters of credit for purchases of raw materials amounted to approximately $781,633 thousand and $626,918 thousand, respectively.

b. Unrecognized commitments are as follows:

	December 31 2017	2016
Acquisition of property, plant and equipment	$ 33,562	$ 22,781

c. Product liability

The Corporation and Merida Hong Kong purchased product liability insurance over the products manufactured by the Corporation and its subsidiaries. The insurance 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 insurance amount for sales, other than those within the USA and Canada, is US$1,000 thousand, and covers accidents happening after January 17, 1999. The maximum indemnity claims for the single original cause of a liability is US$1,000 thousand.

30. 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, 2017			December 31, 2016		
	Foreign Currencies	Exchange Rate	Carrying Amount	Foreign Currencies	Exchange Rate	Carrying Amount
Financial assets						
Monetary items						
USD	$ 126,464	29.76	$ 3,763,554	$ 157,487	32.25	$ 5,078,961
JPY	438,720	0.2642	115,910	375,602	0.2756	103,516
Non-monetary items						
Associates accounted for using the equity method						
USD	272,737	29.76	8,116,656	269,770	32.25	8,700,093
EUR	5,034	35.57	179,074	4,781	33.9	162,074
JPY	131,732	0.2642	34,804	124,670	0.2756	34,359
Financial liabilities						
Monetary items						
USD	42,638	29.76	1,447,480	57,067	32.25	1,840,408
JPY	1,954,312	0.2642	516,329	1,348,205	0.2756	371,565

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:

	For the Year Ended December 31			
	2017		2016	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Loss	Exchange Rate	Net Foreign Exchange Gain
NTD	1 (NTD:NTD)	$ (38,546)	1 (NTD:NTD)	$ (16,519)
RMB	4.507 (RMB:NTD)	(23,613)	4.849 (RMB:NTD)	24,458
EUR	34.35 (EUR:NTD)	(8,190)	35.70 (EUR:NTD)	14,948
GBP	39.21 (GBP:NTD)	2,961	43.78 (GBP:NTD)	4,040
		$ (67,388)		$ 26,927

31. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (Table1)

2) Endorsements/guarantees provided. (Table 2)

3) Marketable securities held (excluding investments in subsidiaries and associates). (Table 3)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital. (None)

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 4)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 5)

9) Trading in derivative instruments. (None)

10) Intercompany relationships and significant intercompany transactions. (Table 6)

11) Information on investees. (Table 7)

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 8)

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 4)

   b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 4)

   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)

32. 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:

1. Domestic operations - products manufactured and sold in Taiwan

2. Asia operations - products manufactured and sold in China and Hong Kong

3. Europe operations - products sold in Europe

a. Analysis of reportable segments

	For the Year Ended December 31, 2017				
	Domestic Operations	Asia Operations	Europe Operations	Reconciliation and Elimination	Total
Revenue					
Revenue from external customers	$16,752,644	$ 2,641,988	$ 3,001,542	$ -	$22,396,174
Revenue from internal segments	1,460,399	324,855	126,393	(1,911,647)	-
Interest income	34,394	16,599	1,522	(11,757)	40,758
Share of profit of associates accounted for using the equity method	(161,861)	-	-	96,463	(65,398)
Total revenue	$18,085,576	$ 2,983,442	$ 3,129,457	$ (1,826,941)	$22,371,534
Interest expenses	$ 6,227	$ 11,390	$ 21,180	$ (11,757)	$ 27,040
Depreciation and amortization	75,713	149,296	27,676	-	252,685
Income tax expense	191,542	28,675	17,383	-	237,600
Segment profit and loss	797,361	(153,550)	41,405	113,258	798,474
Assets					
Investments accounted for using the equity method	$12,039,211	$ -	$ -	$ (3,318,991)	$ 8,720,220
Non-current assets	13,398,779	1,684,862	141,034	(3,394,726)	11,829,949
Segment assets	18,724,486	4,415,267	1,982,856	(4,177,063)	20,945,546
Segment liabilities	7,139,311	1,083,685	1,433,099	(791,923)	8,864,172

	For the Year Ended December 31, 2016				
	Domestic Operations	Asia Operations	Europe Operations	Reconciliation and Elimination	Total
Revenue					
Revenue from external customers	$15,630,836	$ 4,531,011	$ 2,739,625	$ -	$22,901,472
Revenue from internal segments	1,349,775	521,210	47,712	(1,918,697)	-
Interest income	36,863	29,003	624	(14,690)	51,800
Share of profit of associates accounted for using the equity method	892,848	-	-	(97,739)	795,109
Total revenue	$17,910,322	$ 5,081,224	$ 2,787,961	$ (2,031,126)	$23,748,381
Interest expenses	$ 6,027	$ 8,124	$ 23,200	$ (14,690)	$ 22,661
Depreciation and amortization	63,661	164,256	20,066	-	247,983
Income tax expense	491,528	14,973	9,150	-	515,651
Segment profit and loss	1,918,953	(10,022)	14,667	(8,154)	1,915,444
Assets					
Investments accounted for using the equity method	$12,669,256	$ -	$ -	$ (3,479,028)	$ 9,190,228
Non-current assets	14,036,390	1,841,572	132,230	(3,554,764)	12,455,428
Segment assets	19,398,372	4,902,090	1,840,681	(4,545,661)	21,595,482
Segment liabilities	6,812,336	1,323,231	1,363,217	(980,284)	8,518,500

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

b. Information about major customers

	For the Year Ended December 31			
	2017		2016	
Names	Amount	%	Amount	%
Customer A	$14,514,742	65	$13,307,433	58

TABLE 1

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	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 Limits
													Item	Value		
0	The Corporation	Merida Polska	Other receivables from related parties	Yes	$ 8,401	$ 8,097	$ 23,160	6.48	Business relationship	$ 162,472	-	$ -	-	$ -	$ 4,733,774 (Note 1)	$ 4,733,774 (Note 1)
		Merida Benelux	Other receivables from related parties	Yes	6,697	-	-	4	Business relationship	201,461	-	-	-	-	4,733,774 (Note 1)	4,733,774 (Note 1)
		Merida Bikes SWE	Other receivables from related parties	Yes	962	-	-	7.2	Business relationship	338,709	-	-	-	-	21,911 (Note 2)	21,911 (Note 2)
		Merida Italy	Other receivables from related parties	Yes	6,391	6,391	-	4	Business relationship	225,679	-	-	-	-	9,782 (Note 3)	9,782 (Note 3)
1	Merida Hong Kong	Merida SAMOA	Other receivables from related parties	Yes	USD 5,000	-	-	4.225	Necessary for short-term financing	-	Operating capital	-	-	-	HKD 235,841 (Note 4)	HKD 235,841 (Note 4)
2	Merida China	Merida Jiangsu	Other receivables from related parties	Yes	RMB 50,000	-	-	2.175	Necessary for short-term financing	-	Operating capital	-	-	-	RMB 96,052 (Note 5)	RMB 96,052 (Note 5)
3	Merida Shandong	Merida Jiangsu	Other receivables from related parties	Yes	RMB 20,000	-	-	2.175	Necessary for short-term financing	-	Operating capital	-	-	-	RMB 72,646 (Note 6)	RMB 72,646 (Note 6)

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

Note 2: 50% of the capital of Merida Bikes SWE.

Note 3: 50% of the capital of Merida Italy.

Note 4: 40% of the net assets of the Merida Hong Kong in the last year’s financial statements.

Note 5: 40% of the net assets of the Merida China in the last year’s financial statements.

Note 6: 40% of the net assets of the Merida Shandong in the last year’s 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, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

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	$ 3,775,811	EUR 500 GBP 4,000	EUR 500 GBP 4,000	$ - GBP 3,500	$ -	1.51	$ 6,293,018	Yes	-	-
		Merida & Centurion	Subsidiary	3,775,811	EUR 2,500 USD 3,500	EUR 2,500 USD 3,500	EUR 2,100 EUR 3,160	-	1.63	6,293,018	Yes	-	-
		Merida Jiangsu	Indirectly owned subsidiary	3,775,811	USD 17,500	USD 14,250	USD 10,750	-	3.58	6,293,018	Yes	-	Yes

Note 1: 30% of the net assets of the Corporation in the last year’s financial statements.

Note 2: 50% of the net assets of the Corporation in the last year’s financial statements.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2017			
				Number of Shares (In Thousands)	Carrying Amount	Percentage of Ownership %	Fair Value
The Corporation	Mutual funds						
	Franklin Templeton Sinoam Money Market Fund (Note 1)	-	Financial assets at fair value through profit or loss - current	15,608	$ 160,349	-	$ 160,349
	Mega Diamond Money Market Fund (Note 1)	-	Financial assets at fair value through profit or loss - current	8,039	100,212	-	100,212
	Yuanta Wan Tai Money Market Fund (Note 1)	-	Financial assets at fair value through profit or loss - current	6,653	100,200	-	100,200
	Cathay Taiwan Money Market Fund (Note 1)	-	Financial assets at fair value through profit or loss - current	6,461	80,018	-	80,018
	Share capital						
	Leechi Enterprises Co., Ltd. (Note1)	-	Financial assets at fair value through profit or loss - current	113	1,314	-	1,314
	Cheng Shin (Note 1)	Corporation's chairman is their director	Available-for-sale financial assets - non-current	1,146	60,156	-	60,156
	Kuei Meng (Note 2)	-	Available-for-sale financial assets - non-current	600	78,000	-	78,000
	Kuei Meng (Note 1)	-	Available-for-sale financial assets - non-current	99	12,925	-	12,925
	Merida Benelux (Note 3)	-	Financial assets measured at cost - non-current	2,749	89,220	-	-
	SR Suntour Inc.	-	Financial assets measured at cost - non-current	110	3,000	-	-
	Taifong Golf Course	-	Financial assets measured at cost - non-current	30	400	-	-
	Long Jee Holdings Pte. Ltd.	-	Financial assets measured at cost - non-current	330	-	2	-

Note 1: Publicly listed securities are measured at the quoted market prices on the balance sheet date. Mutual funds are measured at the net asset value on the balance sheet date.

Note 2: See Note 10 to the consolidated financial statements.

Note 3: The preference shares investment has been eliminated.

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, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

Company Name	Related Party (Note)	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	Investments accounted for using the equity method	Sale	$ (13,664,688)	(75)	O/A 60 days	$ -	-	$ 698,556	35	
	Merida & Centurion	Subsidiary	Sale	(713,521)	(4)	D/A or O/A 150 days	-	-	245,418	12	
	Merida Bikes SWE	Investments accounted for using the equity method	Sale	(338,709)	(2)	D/A 60-120 days	-	-	72,351	4	
	Merida U.K.	Subsidiary	Sale	(297,628)	(2)	O/A 60 days	-	-	85,659	4	
	SAIL & SURF	Investments accounted for using the equity method	Sale	(239,800)	(1)	T/T 14 days or D/A 180 days	-	-	51,580	3	
	Merida Italy	Investments accounted for using the equity method	Sale	(225,679)	(1)	D/A 90 days	-	-	160,816	8	
	Stians	Investments accounted for using the equity method	Sale	(205,242)	(1)	T/T 14 days or D/A 120 days	-	-	40,212	2	
	Merida Benelux	Subsidiary	Sale	(201,461)	(1)	O/A 180 days	-	-	134,347	7	
	Miyata	Investments accounted for using the equity method	Sale	(195,389)	(1)	O/A 90days	-	-	71,327	4	
	Merida Polska	Subsidiary	Sale	(162,472)	(1)	O/A 150 days	-	-	117,729	6	
	Merida Korea	Investments accounted for using the equity method	Sale	(176,477)	(1)	O/A 120 days	-	-	58,612	3	
	Merida Sverige AB	Subsidiary of Stians	Sale	(153,269)	(1)	T/T 14 days or D/A 120 days	-	-	10,393	1	
	Merida Czech	Investments accounted for using the equity method	Sale	(109,741)	(1)	O/A 150 days	-	-	60,773	3	
	Merida Hong Kong	Indirectly owned subsidiary	Purchase	251,028	2	T/T 90 days	-	-	(75,013)	(2)	
Merida Hong Kong	SBC Group	Associate	Sale	HKD (43,313)	(28)	O/A 60 days	-	-	HKD -	-	
	Merida China	Subsidiary	Purchase	HKD 139,390	97	T/T 90 days	-	-	HKD (12,319)	(90)	
Merida Shandong	Merida China	Associate	Sale	RMB (149,465)	(88)	T/T 90 days	-	-	RMB 5,977	75	
Merida Jiangsu	Merida China	Associate	Sale	RMB (56,378)	(27)	T/T 90 days	-	-	RMB 1,727	5	
Merida SAMOA	SBC Group	Associate	Sale	USD (22,376)	(96)	O/A 60 days	-	-	USD 2,485	89	
	Merida Jiangsu	Subsidiary	Purchase	USD 22,468	100	T/T 90 days	-	-	USD (5,470)	(100)	

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, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

Company Name	Related Party (Note)	Relationship	Financial Statement Account	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
						Amount	Actions Taken		
The Corporation	Merida & Centurion	Subsidiary	Trade receivables from related parties	$ 245,418	2.15	$ -	-	$ 42,499	$ -
			Other receivables from related parties	3,481	-	-	-	623	-
	Merida Benelux	Subsidiary	Trade receivables from related parties	134,347	1.09	-	-	18,474	-
			Other receivables from related parties	2,687	-	-	-	370	-
	Merida Polska	Subsidiary	Trade receivables from related parties	117,729	1.48	-	-	-	-
			Other receivables from related parties	23,160	-	23,160	Continued collection	9,672	-
	Merida Italy	Investments accounted for using the equity method	Trade receivables from related parties	160,816	2.05	-	-	49,741	-
	SBC Group	Investments accounted for using the equity method	Trade receivables from related parties	698,556	18.67	-	-	698,534	-
Merida Jiangsu	Merida SAMOA	Parent company	Trade receivables from related parties	RMB 35,743	5.85	-	-	RMB 15,935	-

Note: Significant intercompany accounts and transactions have been eliminated.

TABLE 6

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

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	$ 713,521	D/A or O/A 150 days	3
				Promotional and advertising expenses	45,896	-	-
				Trade receivables	245,418	D/A or O/A 150 days	1
				Other receivables	3,481	-	-
				Realized gain on transaction	15,486	-	-
				Deferred unrealized gain on transaction	22,557	-	-
				Interest income	7,862	-	-
		Merida Benelux	1	Sales	201,461	O/A 180 days	1
				Trade receivables	134,347	O/A 180 days	1
				Other receivables	2,687	-	-
				Realized gain on transaction	4,689	-	-
				Deferred unrealized gain on transaction	7,469	-	-
				Interest income	3,895	-	-
		Merida Polska	1	Sales	162,472	O/A 150 days	1
				Trade receivables	117,729	O/A 150 days	1
				Other receivables	23,160	-	-
				Deferred unrealized gain on transaction	6,301	-	-
				Unrealized gain on transaction	206	-	-
		Merida U.K.	1	Trade receivables	85,659	O/A 60 days	-
				Sales	297,628	O/A 60 days	1
				Unrealized gain on transaction	3,767	-	-
				Deferred unrealized gain on transaction	8,732	-	-
		Merida Jiangsu	1	Other receivables	7,775	-	-
				Technical service revenue	9,088	-	-
		Merida Hong Kong	1	Trade payables	75,013	T/T 90 days	-
				Cost of goods sold	251,028	T/T 90 days	1
		Merida SAMOA	1	Cost of goods sold	31,790	T/T 90 days	-
				Trade payables	9,092	T/T 90 days	-
		Merida China	1	Other receivables	41,024	-	-
				Sales	85,318	T/T 90 days	-
				Trade receivables	32,522	T/T 90 days	-
				Cost of goods sold	15,881	T/T 90 days	-
				Trademark franchise and technical service revenue	47,784	-	-

(Continued)

No.	Investee Company	Counterparty	Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets
0	The Corporation	Merida Shandong	1	Other receivables	$ 7,100	-	-
				Cost of goods sold	27,596	T/T 90 days	-
				Trade payables	3,905	T/T 90 days	-
				Trademark franchise and technical service revenue	8,272	-	-
1	Merida Hong Kong	Merida China	1	Trade payables	HKD 12,319	T/T 90 days	-
				Cost of goods sold	HKD 139,390	T/T 90 days	2
				Sales	HKD 15	T/T 90 days	-
		Merida Shandong	1	Trade payables	HKD 1,381	T/T 90 days	-
				Cost of goods sold	HKD 3,599	T/T 90 days	-
2	Merida China	Merida Shandong	3	Trade payables	RMB 5,977	T/T 90 days	-
				Cost of goods sold	RMB 149,465	T/T 90 days	3
				Prepayments	RMB 3,509	-	-
				Sales	RMB 4,961	T/T 90 days	-
		Merida Jiangsu	3	Cost of goods sold	RMB 56,378	T/T 90 days	1
				Trade payables	RMB 1,727	T/T 90 days	-
				Prepayments	RMB 2,261	-	-
				Sales	RMB 2,905	T/T 90 days	-
3	Merida Shandong	Merida Jiangsu	3	Other receivables	RMB 449	-	-
				Trade payables	RMB 183	T/T 90 days	-
				Sales	RMB 1,254	T/T 90 days	-
4	Merida SAMOA	Merida Jiangsu	1	Cost of goods sold	USD 22,468	T/T 90 days	3
				Trade payables	USD 5,470	T/T 90 days	1

(Concluded)

Note: Legend of transaction directional relationships: (1) From parent company to subsidiary; (2) From subsidiary to parent company; (3) From subsidiary to subsidiary.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

Investor Company	Investee Company (Note 2)	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2017			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2017	December 31, 2016	Shares (In Thousands)	%	Carrying Amount			
The Corporation	Share capital										
	SBC	California, United States of America	Design, development, manufacture and sale of bicycles	$ 887,013	$ 887,013	3,410	35	$ 8,423,339	USD (7,990)	$ (86,042)	
	Merida B.V.I.	British Virgin Islands	International investment	1,362,597	1,362,597	42,500	100	3,027,287	USD (4,337)	(115,177)	Subsidiary
	Merida & Centurion	Stuttgart, Germany	Sale of bicycles	31,713	31,713	-	51	169,952	EUR 1,774	31,071	Subsidiary
	Merida Polska	Gliwice, Poland	Sale of bicycles and bicycle components	113,170	113,170	-	74	82,716	PLN (752)	(4,497)	Subsidiary
	Stians	Lysaker, Norway	Sale of bicycles	29,780	29,780	34	34	30,351	NOK (1,599)	(2,003)	
	SAIL & SURF	Strobl, Austria	Sale of bicycles	116,195	116,195	-	40	85,564	EUR 357	4,911	
	Merida Czech	Brno, Czech Republic	Sale of bicycles	21,042	21,042	-	45	34,670	CZK 2,177	1,280	
	Merida Bikes SWE	Madrid, Spain	Sale of bicycles	18,646	18,646	1	36	65,826	EUR 701	8,752	
	WideDoctor	Changhua, Taiwan	Marketing of daily necessities	16,900	16,900	690	26	3,991	$ 2,406	615	
	Merida Slovakia	Partizanska, Slovakia	Sale of bicycles	40	40	-	30	22,365	EUR 75	774	
	Miyata	Tokyo, Japan	Sale of bicycles	79,913	79,913	1	45	35,572	JPY 15,693	1,916	
	Merida Italy	Reggio Emilia, Italy	Sale of bicycles	5,164	5,164	-	27	7,339	EUR 397	3,717	
	Merida Benelux	Beekbergen, Netherlands	Sale of bicycles	65,400	65,400	766	60	(55,029)	EUR (420)	(8,655)	Subsidiary
	Merida U.K.	Nottingham, United Kingdom	Sale of bicycles	40,309	40,309	482	81	39,036	GBP 25	795	Subsidiary
	Merida Korea	Seoul, Republic of Korea	Sale of bicycles	10,598	-	77	40	11,203	KRW 62,818	682	
Merida B.V.I.	Share capital										
	Merida Hong Kong	Hong Kong	International investment and trade	USD 27,087	USD 27,087	202,800	100	USD 77,440	HKD (20,881)	(Note 1)	Indirectly owned subsidiary
	Merida SAMOA	Samoa	International investment	USD 24,500	USD 24,500	24,500	70	USD 23,828	USD (2,364)	(Note 1)	Indirectly owned subsidiary
Merida & Centurion	Share capital										
	Merida Europe GmbH	Stuttgart, Germany	Brand promotion and cycling team management	EUR 25	EUR 25	-	100	EUR 517	EUR 24	(Note 1)	Indirectly owned subsidiary
	Merida R&D Center GmbH	Stuttgart, Germany	Design and development of bicycles	EUR 25	EUR 25	-	100	EUR 129	EUR 32	(Note 1)	Indirectly owned subsidiary

Note 1: Not applicable.

Note 2: 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, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2017 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outward	Inward						
Merida China	Manufacture and sale of bicycles	$ 365,453 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	$ 329,949 USD (11,087)	$ -	$ -	$ 329,949 USD (11,087)	$ (103,224)	100	$ (103,224)	$ 991,440	$ 1,330,480 USD (44,707)
Merida Shandong	Manufacture and sale of e-bikes and bicycles	476,160 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	476,160 USD (16,000)	-	-	476,160 USD (16,000)	(2,045)	100	(2,045)	826,850	771,468 USD (25,923)
Merida Jiangsu	Manufacture and sale of bicycles	1,041,600 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	491,040 USD (16,500)	-	-	491,040 USD (16,500)	(89,489)	70	(62,642)	679,811	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
$ 1,297,149 USD (43,587)	$ 1,360,478 USD (45,715) (Note 2)	$ 6,951,105 (Note 3)

Note 1: The investment gain (loss) and carrying amount as of December 31, 2017 are recognized according to the financial statements audited by the Corporation's independent auditors.

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

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