Common Stock Code: 9914
Taiwan Stock Exchange Market Observation Post System:
http://mops.twse.com.tw
The Company’s Website: http://www.merida.tw

MERIDA INDUSTRY CO., LTD.

2018 Annual Report

Printed on: June 1, 2019

1. Spokesperson

Name: Zheng Wen-xiang

Title: Senior Vice-President of Marketing Affair Dept.

Tel: +886-48526171

Email: william@merida.com.tw

2. Deputy Spokesperson

Name: Wang Long-Jin

Title: Vice President of Auditing Div.

Tel: +886-48526171

Email:15943@merida.com.tw

3. Headquarters, Branches and Plant

Address of Headquarters:No. 116, Meigang Road, Meigang Village, Dacun Township, Changhua County 515, Taiwan, R.O.C.

Tel of Headquarters: +886-4-8526171

Plant: the address and tel. of the plant is the same as the above

Branches: None

4. Stock Transfer Agent

Name: Yuanta Securities Co., Ltd. Registrar & Transfer Agency Department.

Address: B1F., No. 210, Sec. 3, Chengde Rd., Datong Dist., Taipei City 103, Taiwan (R.O.C.)

Tel: +886-2-25865859

Website: http://www.yuanta.com.tw

5. Auditor

Name: Shu-Chin Chiang, Lie-Dong Wu

Name of Accounting Firm: Deloitte & Touche

Address: 20F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)

Address of Taichung Branch: 27F., No. 218, Sec. 2, Taiwan Blvd., Taichung City 407, Taiwan (R.O.C.)

Tel: +886-4-23280055

Website: http://www.deloitte.com

6. Overseas Securities Exchange: None

7. Corporate Website:

Chinese Website: http://www.merida.tw

English Website: http://www.merida-bikes.com

Content

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I. Letter to Shareholders
i. 2018 Business Report：

Merida Industry Co., Ltd.

2018 Business Report

In accordance with the statistics of Taiwan Bicycle Association (TBA), it is reported that, in 2018, the annual export volume and quantities of the finished bicycles decreased by 14.12% and increased by 13.09% respectively from Taiwan to the EU, while increased by 10.33% and 14.65% respectively from Taiwan to the North America; the total number of the finished bicycles exported from Taiwan's bicycle industry in the year was about 2.21 million, amounting to US$1.477 billion, which annually decreased by 6.72% and increased by 11.36% respectively compared with the same period in 2017. The export scale was still slightly reduced, but the average unit price increased by more than 19%, showing that the export of high-priced electric bicycles to Europe, the United States and other regions continues to increase and the penetration keeps increasing. The demands for high-class bicycles and electric bicycles in the two markets are relatively stable.

In 2018, due to the downturn of the sales of traditional bicycles in Chinese market and the strategic adjustment of export origin in the US-China Trade War, Merida's production and marketing scale in China was still in the downturn. Taiwan factories, mainly exporting high-class bicycles and electric bicycles to Europe and the United States, were experiencing a sharp increase in demand for traditional bicycles and electric bicycles, and the orders were in a boost. Although the production progress and the completion rate of export orders were affected due to the fact that the upstream supply of some bicycles which were new for the Year was not delivered timely, the annual sales and the sales volume and amount still both reached a record high. The annual Consolidated sales volume and annual Independent (Taiwan factories) sales volume were 1,152,500 sets and 943,700 sets (including 143,800 electric vehicles) respectively, and annually decreased by 7.25% and increased by 18.06% (by 54％for electric bicycles) respectively. The annual Consolidated and Independent sales were NTD$ 25.808 billion and 22.796 billion, and increased annually by 15.47% and 25.16% respectively.

The support of all the shareholders, directors and supervisors, as well as the efforts of all staff are really appreciated. Facing the rapid decline of bicycle market in China, the bicycle industry has entered a stage of bottom adjustment (or slight correction). Influenced by the strong demand of advanced electric bicycles from American and European markets, as well as the global political and economic environment, the fluctuation of international monetary exchange rate and many other variables, Merida will actively and effectively integrate brand, R&D, manufacturing and marketing channels and so on, and gather all kinds of resources, reduce costs and improve efficiency so as to meet the demands of order in the market, and strive to achieve operational objectives and achieve better results in a shorter time than the base period.

The Consolidated and Independent operating situations of Merida in 2018 are hereby reported as follows：

(1) Achievements of operating plans：

Unit: 10,000 sets

Item	Budget	Actual	Completion rate (%)
Consolidated	134	115.25	86.01
Independent	88	94.37	107.23

(2) Operating Situations

1. Consolidated

Unit：10,000 sets for sales quantity, NTD$ 1,000 for others

Year / Item	2018	2017	Comparison of the same period	Comparison of the same period (%)
Sales quantity	115.25	124.26	(9.01)	(7.25)
Sales	$25,852,942	$22,396,174	$3,456,768	15.43
Cost of goods sold	22,463,953	19,715,439	2,748,514	13.94
Gross profit	3,388,989	2,680,735	708,254	26.42

Realized (unrealized) gain on transactions with subsidiaries and associates	(170,760)	81,895	(252,655)	(308.51)
Realized gross profit	3,218,229	2,762,630	455,599	16.49
Operating expenses	1,866,949	1,733,804	133,145	7.68
Profit from operations	1,351,280	1,028,826	322,454	31.34
Non-operating income (expenses)	1,270,375	7,248	1,263,127	17,427.25
Net income before tax	2,621,655	1,036,074	1,585,581	153.04
Net profit at current period	1,745,837	798,474	947,363	118.65

2.Independent

Unit: 10,000 sets for sales quantity, NTD$ 1,000 for others

Year Item	2018	2017	Comparison of the same period	Comparison of the same period (%)
Sales quantity	94.37	79.93	14.44	18.07
Sales	$22,795,595	$18,213,043	$4,582,552	25.16
Cost of goods sold	20,428,043	16,469,520	3,958,523	24.04
Gross profit	2,367,552	1,743,523	624,029	35.79
Realized (unrealized) gain on transactions with subsidiaries and associates	(244,350)	81,727	(326,077)	(398.98)
Realized gross profit	2,123,202	1,825,250	297,952	16.32
Operating expenses	812,613	734,007	78,606	10.71
Profit from operations	1,310,589	1,091,243	219,346	20.10
Non-operating income (expenses)	1,241,457	(102,340)	1,343,797	1,313.07
Net income before tax	2,552,046	988,903	1,563,143	158.07
Net profit at current period	1,708,835	797,361	911,474	114.31

(3) Profitability Analysis

1. Consolidated

Item	2018 (%)	2017 (%)	Comparison of the same period(%)
Rate of return on assets	8.17	3.86	111.66
Return of equity	13.77	6.35	116.85
Ratio of operating profits to paid-in capital	45.20	34.41	31.36
Ratio of profits before tax to paid-in capital	87.69	34.65	153.07
Net profit margin	6.75	3.57	89.08
Earnings per share (NTD$)	5.72	2.67	114.23

2. Independent

Item	2018 (%)	2017 (%)	Comparison of the same period(%)
Rate of return on assets	8.73	4.21	107.36
Return of equity	14.04	6.60	112.73
Ratio of operating profits to paid-in capital	43.83	36.50	20.08
Ratio of profits before tax to paid-in capital	85.36	33.08	158.04
Net profit margin	7.50	4.38	71.23
Earnings per share (NTD$)	5.72	2.67	114.23

(4) R&D Conditions

1. "Touring Road Bicycle Silex CF: was awarded Taiwan Excellence Silver Awards in the 26th (2018) Taiwan Excellence.
2. "Reacto Team Disc-E": was awarded Taiwan Excellence Silver Awards in the 26th (2018) Taiwan Excellence.
3. "Mountain bike ONE-Twenty":was awarded the Gold Prize in the 7th(TAIPEI CYCLE d&i awards 2018).
4. "120 Full suspension mountain bike ONE-Twenty": was awarded the 27th(2019) Taiwan Excellent Products and nominated in the selection of Taiwan Excellence Gold and Silver Awards in the 27th(2019) Taiwan Excellence.
5. " Time Warp TT" was awarded the 27th(2019) Taiwan Excellent Products and nominated in the selection of Taiwan Excellence Gold and Silver Awards in the 27th(2019)Taiwan Excellence.

ii. Business Plan for 2019

1. Operation Policies:

To meet the product development of the Group's brands and the annual order demands of the global channels, strive for the synchronous development and growth of its own brand and strategic alliance brands, endeavor to take the market share of the global medium and high-grade bicycles and e-bikes, so as to achieve the annual operation objectives.

2. Expected Sales Volume and Its Basis

(1).It is estimated that the demand for e-bikes in the European and American bicycle markets still maintains a trend of substantial growth, while the demand for traditional advanced bicycles remains stable. In addition, affected by bicycle sharing, sales of low-end products in traditional consumption market in Mainland China have been stuck at the bottom. What's more, the alternatives are scarcely possible to rebound! The development of medium and high-end bicycles will be adjusted in the industrial chain. After the transformation, it will gradually warm up from the bottom step by step, and the potential demand for new high-level electric vehicles will be increased. According to the annual global sales of the Group, the scale of production and sales of domestic medium and high-end bicycles in China will be slightly increased at the bottom, while the middle and high-end bicycles manufactured by Taiwan factory for export are stable. At the same time, the production and marketing mix of high-grade e-bike exports has been greatly increased, the total sales volume has grown slightly, the average price has increased, and the performance has a significant trend toward medium-range growth.

(2). Business Objectives:

Unit: 10,000 units

	Business items	Estimate sales volume
Consolidated	Bike (including e-bike)	118
Independent	Bike (including e-bike)	89

3. Production and Marketing Policies:

(1) Production: in response to the order demands of Europe, America and China, the factories of the Group should adjust production lines, allocate reasonable manpower, improve production capacities, strictly control the cost, expenses and enhance purchasing logistics and productivity so as to ensure that the delivery rate of the order will be above 95% on the premise of quality first.

(2).Marketing: effectively manage the product development, confirm the specification and pre-production period; master the brand marketing and service resources; ensure the orders, delivery time and recovery of payment and consolidate sales channels; achieve specific annual sales targets.

iii. Development Strategy

Maintain the positioning of the traditional variable-speed bicycle products of its generalized brands in the middle and high-end markets in the world, and actively develop and expand the key material sources and production capacity of e-bike products, so as to meet the demand boom of each major market; Continue to develop and deploy the emerging markets, constantly create the demands and growth momentum thereby pursuing for the 20% market share of medium and high-end bicycle of the Group's generalized brand on a global scale.

iv.The Impact of the External Competitive Environment, Regulatory Environment, and Macroeconomic Conditions

1.The bicycle market of Mainland China continues to transform and the sales market of traditional commuter bicycles has been greatly reduced die to the advancement of public transport system, large supply and occupation of low-end e-bikes and shared bikes. Moreover, as a result of alternatives, the traditional sales channels of low-end bicycles have been difficult to return to the scale of the past. However, the high-end bicycles for leisure, sports and competition and the derivative e-bikes boast the bright future and medium and long-term growth momentum during the industrial chain adjustment and after the market transformation; therefore, the current countermeasures are ensuring the brand sales channels, prioritizing the production line maintaining and retaining the R & D, production and marketing strengths for the recovery of medium and high-end market in a bid for contribution to the performance scale opportunity and growth and profitability momentum of the Group.

2. In respond to global issues, such as energy saving, carbon reduction and aging sports, leisure and health trends and the different market demands in Europe, America and Asia, the Company continues to establish partnership with professional e-bike system module suppliers in Europe and Asia, actively develops high-end new e-bike auxiliary supply market, which has produced considerable results. In addition, the Company has integrated and completed the establishment of complementary professional production lines for e-bike and bikes. At present, the maximum annual production capacity of the advanced e-bike can reach more than 240,000 sets, which can meet the annual order demand of the current period, and will significantly increase the Group's revenue and profit scale.

II. Company Profile

i. Date of Incorporation: September 29, 1972

ii. Company History:

The Company was established in September 1972, its main business is the processing, manufacturing and sales of bike and its components. Over the past 40 years, the Company has been continuously investing in the expansion of plant, equipment and setting up subsidiaries overseas to expand marketing channels.

The Company was approved by the TAIWAN SECURITIES ASSOCIATION, the Ministry of Finance on March 19, 1990 to reissue shares for public offering. It was approved by Taiwan Stock Exchange on July 7, 1992 and officially listed on September 30 of the same year. The important records of the recent five years of the Company are as follows:

1. 2014:

(1).“Ride CF Team”: won 22nd (2014) Silver Medal of Taiwan Excellence

(2).「BIG SEVEN」: won 22nd (2014) Taiwan Excellence Awards.

(3).The Company won the 19th place in the Survey of Taiwan’s Innovative Enterprises in 2014 organized by MOEAIDB, executed by China Productivity Center and jointly organized by BCG

(4).The Company won the 8th place and valued USD 347 million in the Survey of International Brand Value in Taiwan in 2014 organized by Bureau of Foreign Trade, undertaken by Business Next and international brand consultant firm Interband.

(5).Organized a series of activities such as “Chuanghua Classic 100” and “MERIDA CUP & BIKE FESTIVAL” to continuously promote cycling.

(6).In June 2014, Merida Bicycle (China) Co., ltd. won the first place in “China’s Top 100 Light Industry Growth Enterprises in 2013” and the second place in “Top Ten Enterprises in China’s Light Industry Bicycle Industry in 2013”.

2. 2015:

(1).”Reacto Team-- World Tour”: won the gold medal of 23rd (2015) Taiwan Excellence Awards.

(2).“One twenty Team” won the silver medal of 23rd (2015) Taiwan Excellence Award:

(3).“Reacto Team-E LTD”: won 4th TAIPEI CYCLE & i Awards 2015

(4).The Company won the 8th place and valued USD 385 million in Survey of International Brand Value in Taiwan in 2015 organized by MOEAIDB, executed by Chung-Hua Institution for Economic Research and undertaken by Interbrand, the global authoritative brand value survey organization.

(5).Gunn-Rita Dahle Flesjaa, 42-year-old woman of Merida International Mountaineering Team, won the 10th World Championship (Marathon) and the 29th World Cup single-stop championship, which is the highest in history.

(6).Team Lampre-MERIDA won seven single-stop Championships in the three major competitions of the Tour Italia, the Tour de France and the Tour Spain in 2015.

(7).Organized a series of activities such as “Chuanghua Classic 100” and “MERIDA CUP & BIKE FESTIVAL” to continuously promote cycling.

(8).Merida Bicycle (China) Co., ltd. won the “Top Ten Enterprises in China’s Light Industry Bicycle Industry in 2015”.

(9).The air quality purification zones of “Garden Agricultural and Industrial Eco-Park” and “Sanhua Park” fostered by the Company were selected as excellent fostering units of the National Air Quality Purification Zone of the EPA for two consecutive years in 2014 and 2015.

(10).The Company’s new e-bike plant and production line will be completed in the fourth quarter.

(11).Sponsored the film “To The Fore”

3. 2016:

(1).“Ninety Six Team”: won the gold medal of 24th (2016) Taiwan Excellence Award.

(2).“Scultura 9000”: won silver medal of 24th (2016) Taiwan Excellence Award.

(3).“Scultura Team” and “Ninety-Six.7 Team”: won the 5th TAIPEI CYCLE d&i awards 2016

(4).The Company won 8th place and was valued at USD 400 million in Survey of International Brand Value in Taiwan in 2016 organized by MOEAIDB, executed by Chung-Hua Institution for Economic Research and undertaken by Interbrand, the global authoritative brand value survey organization.

(5).SCULTURA 6000 was awarded “LIGHTWEIGHT BIKE OF THE YEAR” by Cycling Weekly, an authoritative professional magazine with a history of 100 years in Britain.

(6).Sponsored the newly world-class professional highway fleet BAHRAIN MERIDA PRO CYCLING TEAM

(7).Huang Ting-Yin, a long-term sponsored excellent cyclists in Taiwan, won two single-race Championships in the UCI Women World Tour Class I Professional Competition around Chongming Island in mainland China, and was also the first domestic cyclist to win the first prize in the Class I Competition.

(8).The chairman of the Company was selected by Harvard Business Review as one of the top 50 CEOs in Taiwan in 2016.

(9).Organized a series of activities such as “Chuanghua Classic 100” and “MERIDA CUP & BIKE FESTIVAL” to continuously promote cycling.

(10).Continued to sponsor the “1919 Go” charity fundraising cycling activity.

(11).The air quality purification zones of “Sanhua Park” fostered by the Company were selected as excellent fostering units of the National Air Quality Purification Zone of the EPA in 2016.

4. 2017:

(1).“Scultura Disc”:won the gold metal of 25th (2017) Taiwan Excellence Award.

(2).“eONE-SIXTY 900-E”: won the silver medal of 25th (2017) Taiwan Excellence Award.

(3).eONE-SIXTY 900-E: won the gold medal of 6th TAIPEI CYCLE d&i awards 2017

(4).The Company won the 11th place and valued USD 359 million in Survey of International Brand Value in Taiwan in 2017 organized by MOEAIDB, executed by Chung-Hua Institution for Economic Research and undertaken by Interbrand, the global authoritative brand value survey organization.

(5).In 2017, Vincenzo Nibali, star racer of the Merida Team sponsored by Merida, won the third place in GIRO and the second place in Vuelta, Champion of Il Lombardia.

(6).Star player Vincezo Nibali was invited by Merida to participate in the Merida Cup and won the championship in “Taiwan KOM Challenge”, an international road racing with record-breaking results.

(7).Organized a series of activities such as “Chuanghua Classic 100” and “MERIDA CUP & BIKE FESTIVAL” to continuously promote cycling.

(8).The air quality purification zones of “Sanhua Park” fostered by the Company were selected as excellent fostering units of the National Air Quality Purification Zone of the EPA in 2017.

5. 2018:

(1).“Silex CF”: won the silver medal of 26th (2018) Taiwan Excellence Award.

(2).“Reacto Team Disc-E”: won the silver medal of 26th (2018) Taiwan Excellence Award.

(3).“ONE-Twenty”: won the gold medal of 7th TAIPEI CYCLE d&i awards 2018.

(4).The Company won the 11th place and valued USD 328 million in Survey of International Brand Value in Taiwan in 2018 organized by MOEAIDB, executed by Chung-Hua Institution for Economic Research and undertaken by Interbrand, the global authoritative brand value survey organization.

(5).The Bahrain Merida Team star driver Vincenzo Nibali, sponsored by Merida, won the milano-san Remo championship, one of the five classical races, in 2018.

(6).Organized a series of activities such as “Chuanghua Classic 100” and “MERIDA CUP & BIKE FESTIVAL” to continuously promote cycling.

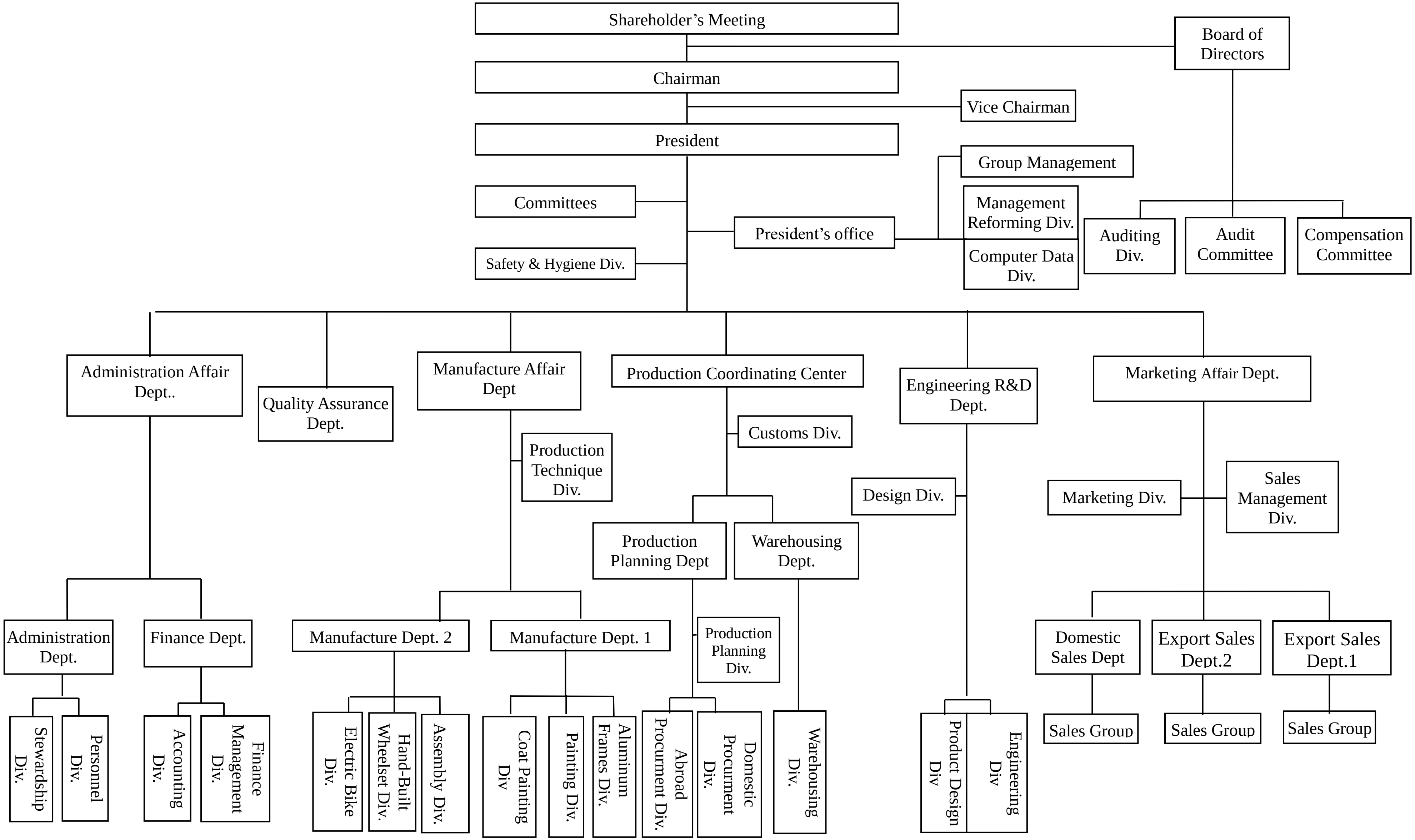
(7).The air quality purification zones of “Sanhua Park” fostered by the Company were assessed and selected as excellent unit for fostering and maintaining air quality in air qualification zone by Changhua County Government in 2018.

III. Corporate Governance Report

i. Organization

1. Organizational Chart

Organizational Chart of MERIDA INDUSTRY CO., LTD.



2. Major Corporate Functions:

Departments	Main Functions
Auditing Div.	Responsible for internal control, general business and financial business audit and suggestion
Management Reforming Div.	Responsible for the planning of major investments and the review of regulations and rules
Computer Data Div.	Responsible for the integration of enterprise information systems. Assist in the establishment of query and decision-making resource systems, etc
Safety & Hygiene Div.	Responsible for environmental protection and labor safety and health
Engineering R&D Dept.	1. Responsible for the research and development of new product design, production and process 2.Responsible for the annual new car frame design and mold fixture design and production 3.Responsible for product specification development and research
Quality Assurance Dept.	Responsible for quality control of raw materials and finished products
Finance Dept.	Responsible for fund scheduling, accounting treatment and management information provision
Administration Dept.	1.Responsible for hr planning, implementation and operation of human resource policies 2.Responsible for property management and integration of the company's general affairs
Export Sales Dept.1 and 2	Responsible for overseas customer affairs and business information collection and analysis
Domestic Sales Dept.	Responsible for domestic marketing network issues and business information collection and analysis
Production Planning Dept	Responsible for raw material negotiation, purchasing, tracking and production scheduling control
Warehousing Dept.	Responsible for raw material and finished product management in warehouse area
Manufacture Affair Dept.	Responsible for the production of bicycle products and maintenance of production equipment

ii. Directors, Supervisors and Management Team

1. (1) Directors and Supervisors

Date: as of April 26, 2019

Title (Note 1)	Nationality or registration place	Name	Gender	Selection date	Term of office	Initial selection date (Note 2)	Holding of shares when being selected		Current holding of shares		Current holding of shares of spouse, under-age children		Holding of shares making use of other's name		Primary (educational) experience (Note 3)	Current part-time position in The or other enterprise	Other managers, directors or supervisors within the relations of spouse or parents		
							Number of strands	Share holding ratio	Number of strands	Share holding ratio	Number of strands	Share holding ratio	Number of strands	Share holding ratio			Title	Name	Relation
Chairman	Taiwan	Zeng,Song-zhu	Male	2018.6.26	3	1994.6.6	48,664,715	16.28%	48,664,715	16.28%	8,347,819	2.79%	0	0%	13th MBA Program for entrepreneur, National Chengchi University	1.President of the Company 2.Please refer to page 90 for concurrent positions in our Company's affiliated enterprises. 3. Director of Cheng Shin Rubber Ind., Co., Ltd.	Director Vice-President	Zenglu Min-hua Zeng, Shang-Yuan	Spouse Father-son
Director	Taiwan	Zeng,Song-ling	Male	2018.6.26	3	2000.6.24	5,692,934	1.90%	5,692,934	1.90%	0	0%	0	0%	MBA Program of Long Island University, New York, USA	Chairman of Dingsheng Investment Co., Ltd.	Director	Zeng Hui-juan	Brother-sister
Director	Taiwan	Zenglu,Min-hua	Female	2018.6.26	3	2012.6.28	6,697,819	2.24%	8,347,819	2.79%	48,664,715	16.28%	0	0%	Graduated from Dept. of Accounting & Statistics, Taibei High School	Chairman of Dinghong Investment Co., Ltd.	Chairman Vice-President	Zeng Song-zhu Zeng, Shang-Yuan	Spouse Mother-son
Director (Note 4)	Taiwan	Qiu,Li-qing	Female	2018.6.26	3	2003.6.26	5,412,000	1.81%	5,412,000	1.81%	10,754	0.00%	0	0%	Graduated from Department of Economics, National Taiwan University	Director of Cheng Shin Rubber Ind., Co., Ltd.	None	None	None
Director	Taiwan	Dinghong Investment Co., Ltd. Representative: Zheng Wen-xiang	Male	2018.6.26	3	2012.6.28	390,022 366,240	0.13% 0.12%	390,022 366,240	0.13% 0.12%	0	0%	0	0%	Graduated from Institute MBA, Dayeh University	1.Senior Vice-President of Marketing Affair Department of the Company 2.Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Director	Taiwan	Dinghong Investment Co., Ltd. Representative: Cai,Xue-liang	Male	2018.6.26	3	2012.6.28	390,022 130,115	0.13% 0.04%	390,022 130,115	0.13% 0.04%	0	0%	0	0%	Graduated from Department of Finace of EMBA, National Chung Hsing University	1.Senior Vice-President of Administration Affair Department of the Company 2.Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None

Director	Taiwan	Dinghong Investment Co., Ltd. Representative: Yuan,Qi-bin	Male	2018.6.26	3	2012.6.28	390,022 140,184	0.13% 0.05%	390,022 140,184	0.13% 0.05%	151	0.00%	0	0%	Graduated from Institute MBA, Dayeh University	1.Senior Vice-President of Production Coordinating Center of the Company 2.Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Director (Note 5)	Taiwan	Dinghong Investment Co., Ltd. Representative:: Lai,Ru-ding	Male	2018.6.26	3	2018.6.26	390,022 133,763	0.13% 0.04%	390,022 133,763	0.13% 0.04%	0	0.00%	0	0%	Graduated from Institute MBA, Dayeh University	1.Senior Vice-President of the Manufacture Affair Department of the Company 2.Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Director	Taiwan	Dingsheng Investment Co., Ltd. Representative: Zeng,Hui-juan	Female	2018.6.26	3	2012.6.28	7,314,925 997,767	2.45% 0.33%	7,314,925 997,767	2.45% 0.33%	1,218	0.00%	0	0%	Graduated from Accounting & Statistics Department of Holy Savior High School	Senior Manager of Financial Management Division of the Company	Director	Zeng Song-ling	Brother-sister
Independent director	Taiwan	Chen,Shui-jin	Male	2018.6.26	3	2015.6.22	0	0.00%	0	0.00%	0	0%	0	0%	MBA of National Chung Cheng University	Accountant of Yuansheng Accounting Firm	None	None	None
Independent director	Taiwan	Chen,Jian-nan	Male	2018.6.26	3	2015.6.22	0	0.00%	0	0.00%	0	0%	0	0%	Master of Design, UCLA, University of California, Los Angeles	Associate Professor, Department of Industrial Design, Chaoyang University of Technology	None	None	None
Independent director(Note 6)	Taiwan	Li,Zong-ying	Male	2018.6.26	3	2018.6.26	0	0.00%	0	0.00%	0	0%	0	0%	MBA, Fu Jen Catholic University	1. Manager of Taipei Computer Association 2. Executive Secretary of TwIoTA	None	None	None
Independent director(Note 7)	Taiwan	Zhuang,Wen-jing	Female	2018.6.26	3	2018.6.26	0	0.00%	0	0.00%	0	0%	0	0%	Graduated from Department of ClericalAffairs,National Changhua Senior School of Commerce	Senior Manager of Auditing Division of FU CHIAN TIRE CO.,LTD	None	None	None

Note 1: the legal person shareholder shall list the name and representative of the legal person shareholder separately (for the legal person shareholder representative, the name of the legal person shareholder shall be indicated), and shall fill in table 1 below.
Note 2: indicate the time when first served as a director or supervisor of the Company. In case of interruption, please indicate.

Note 3: The title and responsible position of a certified public Accountant firm or affiliated enterprise shall be specified if the experience related to the current position has been held during the previous disclosure period.
Note 4: Director Qiu,Li-qing's qualification as supervisor of the company: from June 26, 2003 to June 26, 2008, as director: since June 26, 2018.
Note 5: Representative Lai, Ju-Ting's qualification as director of Dinghong Investment Co., Ltd.: since June 26, 2018.
Note 6: Li,Zong-ying's qualification as independent director of the Company: since June 26, 2018.
Note 7: Zhuang,Wen-jing's qualification as independent director of the Company: since June 26, 2018.

1. 1-1 Major shareholders of the institutional shareholders

Date: as of April 26, 2019

Name of institutional shareholders (Note 1)	Major shareholders of institutional shareholders (Note 2)	Shareholding ratio
Dinghong Investment Co., Ltd.	Zeng Lin, Hsiu-Feng	57.00%
	Zeng,Song-zhu	16.75%
	Zenglu,Min-hua	16.75%
Dingsheng Investment Co., Ltd.	Zeng,Song-ling	94.40%
	Liu, Chun-Hsun	4.00%

Note 1:If the supervisor is the representative of the institutional shareholder, he/she shall fill in the name of the institutional shareholder.

Note 2:Fill in the name of the major shareholder of the institutional shareholder (the top ten shareholders) and its share proportion. If the major shareholder is the institutional shareholder, then fill in the second table below.

1. (2) Professional qualifications and independence analysis of directors and supervisors:

Conditions / Names (Note 1)	Whether they have the work experience of over years or the following qualifications			Conform to independence situation (Note 2)										Number of independent directors of other public offering companies
	the lecturer of public and private universities and colleges about business, law works, finance, accounting, Company's business or other related departments	Judge, procurator, lawyer, Accountant and other specialized profession and technicians with national examination certificate required by Company business	Business, legal, finance, accounting and other work experience required by Company business	1	2	3	4	5	6	7	8	9	10	
Zeng,Song-zhu			✓					✓		✓		✓	✓	0
Zeng,Song-ling			✓	✓			✓	✓	✓	✓		✓	✓	0
Zenglu,Min-hua			✓	✓				✓	✓	✓		✓	✓	0
Qiu,Li-qing			✓	✓				✓		✓	✓	✓	✓	0
Dinghong Investment Co., Ltd. Representative: Zheng,Wen-xiang			✓			✓	✓	✓		✓	✓	✓		0
Dinghong Investment Co., Ltd. Representative: Cai,Xue-liang			✓			✓	✓	✓		✓	✓	✓		0
Dinghong Investment Co., Ltd. Representative: Yuan,Qi-bin			✓			✓	✓	✓		✓	✓	✓		0
Dinghong Investment Co., Ltd. Representative: Lai,Ru-ding			✓			✓	✓	✓		✓	✓	✓		0
Dingsheng Investment Co., Ltd. Representative: Zeng,Hui-juan			✓		✓	✓	✓	✓		✓		✓		0
Chen,Shui-jin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Chen,Jian-nan	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Li,Zong-ying			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Zhuang,Wen-jing			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note 1: the number of column shall be adjusted according to actual demands.

Note 2: If the directors and supervisors meet the following requirements two years before their election and during their tenure, please check "✓":

1. Not an employee of a company or its affiliated enterprises.
2. A director or supervisor of an enterprise not affiliated with the Company (unless the Company or its parent company is an independent director appointed by a subsidiary pursuant to this act or local laws).
3. A natural person shareholder who is not himself/herself or his/her spouse, a minor child or in the name of another person holds more than one percent of the total amount of shares issued by the Company or holds 10 percent of the shares.
4. He/she is not the spouse, the relatives within two generations or the lineal relative by blood within three generations of the previous three ones.
5. He/she is not the director, supervisor or an employee of the institutional shareholders who directly hold issued capital stock of over 5%, or the top five share holdings.
6. He/she is not the director, supervisor, manager or the shareholders with over 5% stocks of specific corporations which have finance or business transaction with the Company.
7. He/she is not the entrepreneur, director, supervisor, manager or their spouses of the professional, Independent, or partnership or organization which provide business, legal, finance, accounting and consulting service to the Company or affiliated enterprise. This except, however, the compensation and Audit Committee who exert the right based on the provision 7 of exercising official power in compensation and audit committing of exchange.
8. Do not have the domestic relations of couples or within two generations with other directors.
9. Do not have the situations indicated in Item 30 of Corporation Law.
10. There is no government, legal person or its representative stipulated in Article 27 in Corporation Law to be selected.

2.Management Team

Date: as of April 26, 2019

Title (Note 1)	Nationality	Name	Selection Date	Gender	Shareholding		Shares held by spouses and minor children		Shareholdings in the name of others		Primary experience (Note 2)	Current part-time position in The or other enterprise	Other managers, directors or supervisors within the relations of spouse or parents		
					Number of strands	Shareholding ratio	Number of strands	Shareholding ratio	Number of strands	Shareholding ratio			Title	Name	Relation
President	Taiwan	Zeng,Song-zhu	1994.09.01	Male	48,664,715	16.28%	8,347,819	2.79%	0	0%	13th MBA Program for entrepreneur, National Chengchi University	1.Please refer to page 90 for.concurrent positions in.our.Company's affiliated enterprises. 2.Director of Cheng Shin Rubber Ind., Co., Ltd.	Vice-President	Zeng, Shang, Yuan	Father-son
Senior Vice-President	Taiwan	Zheng,Wen-xiang	1998.05.01	Male	366,240	0.12%	0	0%	0	0%	Graduated from Institute MBA, Dayeh University	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Senior Vice-President	Taiwan	Chen, Cheng-Pin	2004.01.01	Male	134,838	0.05%	1,388	0.00%	0	0%	Department of Machinery, Southern Taiwan University of Science and Technology	None	None	None	None
Senior Vice-President	Taiwan	Yuan,Qi-bin	2004.01.01	Male	140,184	0.05%	151	0.00%	0	0%	Graduated from Institute MBA, Dayeh University	Please refer to page 90 forr.concurrent positions in our.Company's affiliated enterprises.	None	None	None
Senior Vice-President	Taiwan	Cai,Xue-liang	2004.01.01	Male	130,115	0.04%	0	0%	0	0%	Graduated from Department of Finace of EMBA, National Chung Hsing University	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None

Senior Vice-President	Taiwan	Lai, Ru-ding	2007.09.01	Male	133,763	0.04%	0	0%	0	0%	Graduated from Institute MBA, Dayeh University	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Senior Vice-President	Taiwan	Hsu, Shih-Yan	2011.01.01	Male	162,968	0.05%	0	0%	0	0%	Graduated from Institute MBA, Dayeh University	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Senior Vice-President	Taiwan	Zeng, Chin-Cheng	2012.05.01	Male	108,789	0.04%	0	0%	0	0%	Graduated from Department of Mechanical Engineering, Nanya Institute of Technology	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Vice-President	Taiwan	Wang Long-Jin	2002.06.01	Male	3,889	0%	1,290	0.00%	0	0%	Graduated from MBA of Industrial Relations, Dayeh University	None	None	None	None
Vice-President	Taiwan	Li, Po-Lin	2002.06.01	Male	23,938	0.01%	0	0%	0	0%	Graduated from Department of industrial design National Cheng Kung University	None	None	None	None
Vice-President	Taiwan	Lai, Tung-Sha	2010.05.01	Male	3,042	0%	1,207	0.00%	0	0%	Graduated from Department of Mechanical Engineering, National Pingtung Polytechnic Institute	None	None	None	None
Vice-President	Taiwan	Chang, Chen-Yung	2010.05.01	Male	20,075	0.01%	0	0%	0	0%	Graduated from Department of English, National Chengchi University	None	None	None	None
Vice-President	Taiwan	Wu, Yu-Fan	2010.05.01	Male	3,991	0%	2,415	0.00%	0	0%	Graduated from Department of industrial design, Daye University	None	None	None	None
Vice-President	Taiwan	Wu, Min-Fang	2012.09.01	Male	3,788	0%	0	0%	0	0%	Graduated from Department of Mechanical Engineering Lunghwa University of Science and Technology	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None

Vice-President	Taiwan	Chang, Wen-Chie	2014.10.01	Male	11,000	0%	45	0.00%	0	0%	Graduation from Department of Industrial Management National Cheng Kung University	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Vice-President	Taiwan	Tang, Chia-Hung	2016.08.16	Male	2,000	0%	0	0%	0	0%	Graduated from Department of Electrical Engineering,Shu-Teh Junior College of Technology	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None
Vice-President	Taiwan	Zeng, Shang, Yuan	2018.02.01	Male	7,546,000	2.52%	300,000	0.10%	0	0%	Master of Marketing Management, University of La Verne, California, USA	None	President	Zeng,Song-zhu	Father-son
Vice-President	Taiwan	Tsai, Wei-Hsing	2018.10.01	Male	2,100	0%	0	0%	0	0%	Graduated from the Department of Industrial Engineering, Dayeh University	Please refer to page 90 for concurrent positions in our Company's affiliated enterprises.	None	None	None

Note 1: All the information of President, Deputy President, Vice-President and the Supervisor of each department and branch and those titles are equal to President, Senior Vice-President or Vice-President should be disclosed.
Note 2: the title and responsible position should be specified if he/she has relevant experience in the current position, such as previous employment in a certified public accounting firm or affiliated enterprise during the previous period.

3. Compensation of the Director, Supervisor, President and Senior Vice-President in the Most Recent Year:

(1) Compensation of directors (including independent directors):

Unit: NTD$ 1,000

Title	Name	Compensation of directors								The proportion of the total amount of A, B, C and D on the profit after tax (Note 11)		Relevant Compensation of Part-Time Employees								The proportion of the seven items A, B, C, D, E, F and G total amount on the profit after tax (Note 11)		Whether or not to receive reinvestment enterprise Compensation from outside the subsidiary (Note 12)
		Reward (A) (Note 2)		Pension (B)		Remuneration of director (C) (Note 3)		Service execution expenses(D) (Note 4)				Salary, rewards and special expenses (E) (Note 5)		Pension (F)		Employee's remuneration (G) (Note 6)						
		The Company	All the companies in financial reports (Note 8)	The Company	All the companies in financial reports (Note 8)	The Company	All the companies in financial reports (Note 8)	The Company	All the companies in financial reports (Note 8)	The Company	All the companies in financial reports (Note 8)	The Company	All the companies in financial reports (Note 8)	The Company	All the companies in financial reports (Note 8)	The Company		All the companies in financial reports (Note 8)		The Company	All the companies in financial reports (Note 8)	
																Cash amount	Stock amount	Cash amount	Stock amount			
Director	Zeng,Song-zhu	0	0	0	0	19,003	19,003	1,197	1,197	1.18%	1.18%	2,639	2,639	0	0	2,717	0	2,717	0	1.50%	1.50%	None
Director	Dinghong Investment Co., Ltd.	0	0	0	0	25,338	25,338	0	0	1.48%	1.48%	0	0	0	0	0	0	0	0	1.48%	1.48%	None
Director	Zeng,Song-ling	3,163	3,163	0	0	22,421	22,421	890	890	1.55%	1.55%	9,595	9,595	0	0	10,566	0	10,566	0	2.73%	2.73%	None
Director	Zenglu,Min-hua																					
Director	Qiu,Li-qing																					
Director	Dinghong Investment Co., Ltd. Representative: Chen,Jen-Kuei (Note 12) Zheng,Wen-xiang Cai,Xue-liang Yuan,Qi-bin Lai Ru-ding (Note 12)																					
Director	Dingsheng Investment Co., Ltd.																					
Director	Dingsheng Investment Co., Ltd. Representative: Zeng,Hui-juan																					
Independent director	Chen,Shui-jin																					
	Chen,Jian-nan																					
	Tsai,Chen-Teng (Note 13)																					
	Li,Zong-ying(Note 13)																					
	Zhuang,Wen-jing(Note 13)																					

* Except as disclosed in the preceding table, the remuneration paid by the directors of the Company in recent years for the services provided by all the companies in the financial report (such as consultants for non-employees, etc.) : None.

Note 12: Director Chen, Jen-Kuei, the representative of Dinghong Investment Co., Ltd. was dismissed on June 26, 2018 and director Lai, Ju-Ting took office on June 26, 2018.

Note 13: Independent Tsai, Chen-Teng was dismissed on June 26, 2018 and independent director Li, Cung-Ying and Chuang, Wen-Ching took office on June 26, 2018.

Compensation Scale

<table>
<tr><th rowspan="3">Range of compensation</th><th colspan="4">Name of directors</th></tr>
<tr><th colspan="2">The total compensation of the first four ones (A+B+C+D)</th><th colspan="2">The total compensation of the first seven ones (A+B+C+D+E+F+G)</th></tr>
<tr><th>The Company (Note 9)</th><th>All the companies in financial reports (Note 10)</th><th>The Company (Note 9)</th><th>All the companies in financial reports (Note 10)</th></tr>
<tr><td>Below NTD$ 2,000,000</td><td>Chen,Jen-Kuei
Zheng,Wen-xiang.
Cai,Xue-liang.
Yuan,Qi-bin.
Lai,Ru-ding.
Zeng,Hui-juan.
Chen,Shui-jin.
Chen,Jian-nan.
Tsai,Chen-Teng.
Li,Zong-ying.
Zhuang Wen-jing</td><td>Chen,Jen-Kuei
Zheng,Wen-xiang.
Cai,Xue-liang.
Yuan,Qi-bin.
Lai,Ru-ding.
Zeng,Hui-juan.
Chen,Shui-jin.
Chen,Jian-nan.
Tsai,Chen-Teng.
Li,Zong-ying.
Zhuang Wen-jing</td><td>Chen,Jen-Kuei.
Chen,Shui-jin.
Chen,Jian-nan.
Tsai,Chen-Teng.
Li,Zong-ying.
Zhuang Wen-jing</td><td>Chen,Jen-Kuei.
Chen,Shui-jin.
Chen,Jian-nan.
Tsai,Chen-Teng.
Li,Zong-ying.
Zhuang Wen-jing</td></tr>
<tr><td>NTD$ 2,000,000 (included) ～5,000,000</td><td>Qiu,Li-qing</td><td>Qiu,Li-qing</td><td>Qiu,Li-qing
Zheng,Wen-xiang.
Cai,Xue-liang.
Yuan,Qi-bin.
Lai,Ru-ding.
Zeng,Hui-juan</td><td>Qiu,Li-qing
Zheng,Wen-xiang.
Cai,Xue-liang.
Yuan,Qi-bin.
Lai,Ru-ding.
Zeng,Hui-juan</td></tr>
<tr><td>NTD$ 5,000,000(included) ～ 10,000,000</td><td>Zeng,Song-ling.
Zenglu,Min-hua
Dingsheng.Investment Co., Ltd.</td><td>Zeng,Song-ling.
Zenglu,Min-hua
Dingsheng.Investment Co., Ltd.</td><td>Zeng,Song-ling.
Zenglu,Min-hua
Dingsheng.Investment Co., Ltd.</td><td>Zeng,Song-ling.
Zenglu,Min-hua
Dingsheng.Investment Co., Ltd.</td></tr>
<tr><td>NTD$ 10,000,000 (included) ～ 15,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>NTD$ 15,000,000 (included) ～ 30,000,000</td><td>Zeng,Song-zhu.
Dinghong.Investment Co., Ltd.</td><td>Zeng,Song-zhu.
Dinghong.Investment Co., Ltd.</td><td>Zeng,Song-zhu.
Dinghong.Investment Co., Ltd.</td><td>Zeng,Song-zhu.
Dinghong.Investment Co., Ltd.</td></tr>
<tr><td>NTD$ 30,000,000 (included)～50,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>NTD$ 50,000,000 (included) ～ 100,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Over NTD$ 100,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total amount</td><td>17</td><td>17</td><td>17</td><td>17</td></tr>
</table>

Note 1:The names of directors should be listed separately (the names of shareholders and representatives of legal persons should be listed separately) and the amounts paid should be disclosed in a summary manner.
If a director is concurrently the President or Senior Vice-President, he or she shall fill in this form and the following tables (3-1) or (3-2).

Note 2: It refers to the remuneration of directors in recent years (including directors' salary, post pay, severance pay, various bonuses, awards, etc.).

Note 3: The amount of directors' remuneration allocated by the Board of Directors in the latest year shall be indicated.

Note 4: Refers to the relevant business execution expenses of directors in recent years (including transportation fees, special expenses, various allowances, accommodation fees, car allocation, etc.).
In the case of the provision of housing, motor vehicles and other means of transport or for personal expenses, the nature and cost of the assets, rent, oil and other payments actually or at fair market prices provided shall be disclosed. In addition, if there is a driver, please note the relevant remuneration paid to the driver by the Company, but the remuneration is not included.
* The Company provides a car for chairman at an annual rent of NTD$1,157 thousand.

Note 5: it refers to the salary, position bonus, severance pay, various bonuses, travel fees, special expenses, various allowances, accommodation fees, car allocation and other physical provision, etc., received by the directors and part-time employees (including the part-time President, Senior Vice-President, other managers and employees) in recent years. In the case of the provision of housing, motor vehicles and other means of transport or for personal expenses, the nature and cost of the assets, rent, oil and other payments actually or at fair market prices provided shall be disclosed. In addition, if there is a driver, please note the relevant remuneration paid to the driver by the Company, but the remuneration is not included. In addition, the salary expenses recognized in accordance with IFRS 2 "Share-based Payment", including the acquisition of employee stock warrants, the restriction of employee rights to new shares and participation in the subscription of shares in cash increase, shall also be included in the remuneration.

Note 6: where a director concurrently serves as an employee (Including President, Senior Vice-President, other managers and employees) in the most recent year and receives employee remuneration (including stock and cash), it shall disclose the amount of employee remuneration distributed by the Board of Directors in the most recent year. If the amount cannot be estimated, the proposed amount of distribution this year shall be calculated according to the proportion of the actual amount of distribution last year, and the part 3 of Appendix 1 shall be filled in.

Note 7: the total amount of remuneration paid to the directors of the Company by all companies (including the Company) in the consolidated report shall be disclosed.

Note 8: the Company shall pay each director the total amount of remuneration and disclose the name of the director in the Remuneration Scale.

Note 9: the total amount of remuneration paid to each director of the Company by all companies (including the company) in the consolidated report shall be disclosed, and the names of directors shall be disclosed in the Remuneration Scale.

Note 10:After-tax net profit means the after-tax net profit of the most recent year;Where IFRS has been applied, after-tax profit means the after-tax profit of the most recent annual Independent or Independent financial report.

Note 11: a.This column shall clearly indicate the amount of remuneration received by the directors of the Company in connection with the reinvestment business outside the subsidiaries.
.b.Where any director of the Company receives remuneration related to investment in a business other than a subsidiary, the remuneration received by the director of the Company for investment in a business other than a subsidiary shall be incorporated into column I of the remuneration scale and the column name shall be changed to "All Re-investment Businesses".
.c.Remuneration refers to the remuneration and compensations (including remuneration of employees, directors and supervisors) and business execution expenses paid to the directors of the Company by serving as the director, supervisor or manager of the reinvestment undertakings other than the subsidiaries of the Company

＊The content of remuneration disclosed in this table is different from the concept of Income Tax Law. Therefore, the purpose of this table is to disclose information and not for taxation.

(2) Compensation of supervisor (summary of disclosure of name with the compensation scale)

Unit: NTD$ 1,000

Title	Name	Supervisor's compensation						The proportion of the total amount of A, B, C on the profit after tax (Note 8)		Whether to receive reinvestment business compensation outside the subsidiary corporation (Note 9)
		Salary (A) (Note 2)		Pension (B) (Note 3)		Business execution expenses (C) (Note 4)				
		The Company	All the companies in financial reports (Note 5)	The Company	All the companies in financial reports (Note 5)	The Company	All the companies in financial reports (Note 5)	The Company	All the companies in financial reports (Note 5)	
Supervisor	Qiu,Li-qing	0	0	5,834	5,834	30	30	0.34%	0.34%	None
Supervisor	Tsai,Wu-Ying (Note 10)									

Note 10: Supervisor Chiu, Li-Ching and Tsai, Wu-Ying were dismissed on June 26, 2018.

Compensation Scale

Range of compensation	Name of supervisor	
	Total compensation of the first three items (A+B+C)	
	The Company (Note 6)	All the companies in financial reports (D) (Note 7)
Below NTD$ 2,000,000		
NTD$ 2,000,000 (included)～5,000,000	Qiu,Li-qing.Tsai, Wu-Ying	Qiu,Li-qing.Tsai, Wu-Ying
NTD$ 5,000,000(included)～10,000,000		
NTD$ 10,000,000 (included)～15,000,000		
NTD$ 15,000,000 (included)～30,000,000		
NTD$ 30,000,000 (included)～50,000,000		
NTD$ 50,000,000 (included)～100,000,000		
Over NTD$ 100,000,000		
Total amount	2	2

Note 1:The names of the supervisors should be listed separately (the legal shareholders should list the names of the legal shareholders and their representatives separately) and the amounts of payments should be disclosed by summary.

Note 2:Means the remuneration of the supervisor in the most recent year (including the supervisor's salary, position bonus, severance payment, various bonuses, etc.).

Note 3:The amount of supervisor's remuneration allocated by the board of directors in the latest year is indicated.

Note 4:It refers to the payment of the supervisor's related operating expenses in the latest year (including vehicle and travel expenses, special expenses, various allowances, dormitories, car allocation etc.). When providing housing, cars and other means of transport or expenditures for personal affairs, the nature and cost of the assets provided, actual or fair market rents, oil and other payments shall be disclosed. In addition, if there is a driver, please note the relevant remuneration paid to the driver by the Company, but the remuneration is not included.

Note 5:The total amount of remuneration paid to our supervisors by all companies (including our Company) in the consolidated report shall be disclosed.

Note 6:The total amount of each supervisor's remuneration paid by the Company shall disclose the supervisor's name in the right remuneration scale.

Note 7:The total amount of remuneration paid by all companies (including the Company) to each supervisor in the consolidated report shall be disclosed, and the name of the supervisor shall be disclosed in the correct remuneration scale.

Note 8:After-tax net profit means the after-tax net profit of the most recent year;Where IFRS has been applied, after-tax profit means the after-tax profit of the most recent annual Independent or Independent financial report.

Note 9:a.This column shall clearly indicate the amount of remuneration received by the directors of the Company in connection with the reinvestment business outside the subsidiaries.

..b.Where any supervisor of the Company receives remuneration related to investment in a business other than a subsidiary, the remuneration received by the supervisor of the Company for investment in a business other than a subsidiary shall be incorporated into column D of the remuneration scale and the column name shall be changed to "All Re-investment Businesses".

..c.Remuneration refers to the remuneration and compensations (including remuneration of employees, directors and supervisors) and business execution expenses paid to the supervisors of the Company by serving as the director, supervisor or manager of the reinvestment undertakings other than the subsidiaries of the Company

＊The content of remuneration disclosed in this table is different from the concept of Income Tax Law. Therefore, the purpose of this table is to disclose information and not for taxation.

(3) Compensation of President and Senior Vice-President: (summary of disclosure of name with the remuneration scale)

Unit: NTD$1,000

Title	Name	Salary (A) (Note 2)		Pension (B)		Reward and special expenses (C) (Note 3)		Employee's compensation (D) (Note 4)				The proportion of the total amount of A, B, C and D on the profit after tax (Note 8)		Whether to receive reinvestment business compensation outside the subsidiary corporation (Note 9)
		The Company	All the companies in financial reports (Note 5)	The Company	All the companies in financial reports (Note 5)	The Company	All the companies in financial reports (Note 5)	The Company		All the companies in financial reports (Note 5)		The Company	All the companies in financial reports (Note 5)	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Zeng,Song-zhu	15,789	15,789	0	0	0	0	19,789	0	19,789	0	2.08%	2.08%	None
Senior Vice-President	Zheng, Wen-xiang													
Senior Vice-President	Chen, Cheng-Pin													
Senior Vice-President	Yuan,Qi-bin													
Senior Vice-President	Cai,Xue-liang													
Senior Vice-President	Lai,Ru-ding													
Senior Vice-President	Hsu,Shih-Yan													
Senior Vice-President	Zeng, Chin-Cheng													

* Disclosure should be made of any position equivalent to President or Senior Vice-President (e.g. President, CEO, director, etc.), regardless of title.

Compensation Scale

Range of compensation	President and Senior Vice President's name	
	The Company (Note 6)	All the companies in financial reports (Note 7) (E)
NTD$ 2,000,000 (included)～5,000,000	Zheng,Wen-xiang. Chen, Cheng-Pin. Yuan,Qi-bin. Cai,Xue-liang. Lai,Ru-ding. Hsu, Shih-Yan. Zeng,Chin-Cheng	Zheng,Wen-xiang. Chen, Cheng-Pin. Yuan,Qi-bin. Cai,Xue-liang. Lai,Ru-ding. Hsu, Shih-Yan. Zeng,Chin-Cheng
NTD$ 5,000,000(included)～10,000,000	Zeng,Song-zhu	Zeng,Song-zhu
Total amount	8	8

Note 1:The names of the President and Senior Vice-President shall be shown separately, and the amounts paid shall be disclosed in a summary manner. If the director is also the President or deputy President, he or she shall fill in this and the above tables (1-1).

Note 2:Salary, position bonus and severance pay of the President and Senior Vice-President of the most recent year shall be indicated.

Note 3:It refers to the awards, various bonuses, travel fees, special expenses, various allowances, accommodation fees, car allocation and other physical provision, etc., received by the President and Senior Vice-President in recent years. In the case of the provision of housing, motor vehicles and other means of transport or for personal expenses, the nature and cost of the assets, rent, oil and other payments actually or at fair market prices provided shall be disclosed. In addition, if there is a driver, please note the relevant remuneration paid to the driver by the Company, but the remuneration is not included. In addition, the salary expenses recognized in accordance with IFRS 2 "Share-based Payment", including the acquisition of employee stock warrants, the restriction of employee rights to new shares and participation in the subscription of shares in cash increase, shall also be included in the remuneration.

Note 4:The amount of employee remuneration (including stock and cash) for the President and vice- Presidents in the most recent year approved by the Board of Directors shall be listed. If the amount cannot be estimated, the proposed amount for this year shall be calculated in proportion to the actual amount allocated last year, and the part 3 of Appendix 1 shall also be filled in. After-tax net profit means the after-tax net profit of the most recent year;Where IFRS has been used, after-tax profit is the after-tax profit of the most recent annual Independent or Independent financial report.

Note 5:Refers to the number of shares subscribed by the President and the Senior Vice-President (excluding the executed part) with the Employee's Warrant as of the date of publication of the annual report. In addition to filling in this form, Appendix 15 should also be filled in.

Note 6:The total amount of remuneration paid to the President and Senior Vice-President of the company (including the Company) in the consolidated report shall be disclosed.

Note 7:The total amount of remuneration paid by the Company to each President and Senior Vice-President shall be disclosed by the name of the President and Senior Vice-President in the correct remuneration scale.

Note 8:The total amount of remuneration paid to each President and Senior Vice-President of the Company by all companies (including the Company) in the consolidated report shall be disclosed, and the names of the President and Senior Vice-President shall be disclosed in the correct remuneration scale.

Note 9:After-tax net profit means the after-tax net profit of the most recent year;Where IFRS has been used, after-tax profit means the after-tax profit of the most recent annual Independent or Independent financial report.

Note 10:a This column shall clearly indicate the amount of remuneration received by the President and Senior Vice-President of the Company in connection with the reinvestment business outside the subsidiaries.

b.Where any President and Senior Vice-President of the Company receives remuneration related to investment in a business other than a subsidiary, the remuneration received by the President and Senior Vice-President of the Company for investment in a business other than a subsidiary shall be incorporated into column E of the remuneration scale and the column name shall be changed to "All Re-investment Businesses".

c.Remuneration refers to the remuneration and compensations (including remuneration of employees, directors and supervisors) and business execution expenses paid to the President and Senior Vice-President of the Company by serving as the director, supervisor or manager of the reinvestment undertakings other than the subsidiaries of the Company.

Note11:Refers to the number of new shares subscribed by a director and part-time employee as of the date of publication of the annual report, in which the director and part-time employee acquire new shares with limited rights. In addition to this form, the director and part-time employee shall also fill in the part 1 of Appendix 15.

＊The content of remuneration disclosed in this table is different from the concept of Income Tax Law. Therefore, the purpose of this table is to disclose information and not for taxation.

(4). The manager’s name of distributing employee’s compensation and the distribution situation

December 31, 2018
Unit: NTD$1,000

	Title (Note 1)	Name (Note 1)	Stock amount	Cash amount	Total amount	The ratio of total amount on the profit after tax (%)
Manager	President	Zeng, Song-zhu	0	45,841	45,841	2.68%
	Senior Vice-President	Zheng, Wen-xiang				
	Senior Vice-President	Chen, Cheng-Pin				
	Senior Vice-President	Yuan,Qi-bin				
	Senior Vice-President	Cai,Xue-liang				
	Senior Vice-President	Lai,Ru-ding				
	Senior Vice-President	Hsu, Shih-Yan				
	Senior Vice-President	Zeng, Chin-Cheng				
	Vice-President	Wang Long-Jin				
	Vice-President	Li, Po-Lin				
	Vice-President	Lai, Tung-Sha				
	Vice-President	Chang, Chen-Yung				
	Vice-President	Wu, Yu-Fan				
	Vice-President	Wu, Min-Fang				
	Vice-President	Chang, Wen-Chie				
	Vice-President	Tang, Chia-Hung				
	Vice-President	Zeng, Shang, Yuan				
	Vice-President	Tsai, Wei-Hsing				

Note 1:Independent names and titles should be disclosed, but the distribution of profits can be disclosed by summary.

Note 2:this is the amount of employee remuneration (including stock and cash) approved by the Board of Directors to be distributed to managers in the most recent year. If the amount cannot be estimated, the proposed amount of this year will be calculated in proportion to the actual amount of distribution last year. After-tax net profit means the after-tax net profit of the most recent year;Where IFRS has been used, after-tax profit means the after-tax profit of the most recent annual Independent or Independent financial report.

Note 3:In accordance with the Tai-Tsai-Cheng-San-Tzu No. 0920001301 issued by the FSC on March 27, 2003, the scope of application for managers is as follows:
(1) President and equivalent to President
(2) Senior Vice-President and equivalent to Senior Vice-President
(3) Vice-President and equivalent to Vice-President
(4) Head of Financial Department
(5 Head of Accounting Department
(6)Other persons who have the right to manage business and sign for the Company

Note 4:if the director, President and Senior Vice-President have received employee remuneration (including stock and cash), they should complete this form in addition to the part 2 of the Appendix 1.

4.Comparison of Compensation for Directors, Supervisors, President and Senior Vice Presidents in the Most Recent Two Fiscal Years and compensation Policy for Directors, Supervisors, President and Senior Vice Presidents

(1).Payment of the total compensation of directors, supervisors, Presidents and Senior Vice-Presidents in the proportion of net profit after tax:

	2018	2017	Explanation
The Company	6.77%	7.57%	The compensation paid by all the companies in the consolidated statement to the Company will not be distributed to the representative of legal person.
All the companies in the consolidated statement	6.77%	7.57%	

(2).The policy of payment to directors, supervisors, Presidents and Senior Vice-Presidents of the Company, standard and combination of compensation payment, procedures for setting compensation, and its relevance to business performance and future risks.

1)Compensation for directors and supervisors of the Company shall be paid in accordance with article 32 and article 34 of the Articles of Association of the Company and shall be approved by the Compensation Committee.

2)The compensation of the President and Senior Vice-Presidents of the Company shall be paid in accordance with the Company’s salary management regulations, relevant rules and regulations, and in accordance with the standards of the industry, and shall be subject to the approval of the Compensation Committee to ensure the competitiveness of the remuneration so as to achieve the purpose of motivation and talent retention.

iii. Implementation of Corporate Governance

1. Board of Directors:

(1).The last director and supervisor of the Company expired on June 21 2018 and was re-elected on June 26 2018.

(2).The Board meeting was held 8 times in recent years. (A) the attendance of directors and supervisors is as follows:

1) Before June 26, 2018: 3 times.

2) After June 26, 2018: 5 times

(3) Operation of Board of Directors:

Title	Name (Note 1)	Actual attendance (B)	Commissioned attendance	Actual attendance ratio[B/A] (Note 2)	Remarks
Chairman	Zeng,Song-zhu	8	-	100%	Reappointment
Director	Zeng,Song-ling	7	1	88%	Reappointment
Director	Zenglu,Min-hua	8	-	100%	Reappointment
Director	Qiu,Li-qing	5	-	100%	Newly-appointed (Note 3)
Director	Dinghong Investment Co., Ltd. Representative: Chen, Jen-Kuei	3	-	100%	Formerly-appointed (Note 4)
Director	Dinghong Investment Co., Ltd. Representative: Zheng,Wen-xiang	8	-	100%	Reappointment
Director	Dinghong Investment Co., Ltd. Representative: Cai,Xue-liang	8	-	100%	Reappointment
Director	Dinghong Investment Co., Ltd. Representative: Yuan,Qi-bin	8	-	100%	Reappointment
Director	Dinghong Investment Co., Ltd. Representative: Lai,Ru-ding	5	-	100%	Newly-appointed (Note 5)
Director	Dingsheng Investment Co., Ltd. Representative: Zeng,Hui-juan	8	-	100%	Reappointment
Independent director	Chen,Shui-jin	8	-	100%	Reappointment
Independent director	Chen,Jian-nan	8	-	100%	Reappointment
Independent director	Li,Zong-ying	5	-	100%	Newly-appointed (Note 6)
Independent director	Zhuang,Wen-jing	5	-	100%	Newly-appointed (Note 7)
Independent director	Tsai,Chen-Teng	2	1	67%	Formerly-appointed (Note 8)
Supervisor	Qiu,Li-qing	3	-	100%	Formerly-appointed (Note 9)
Supervisor	Tsai,Wu-Ying	3	-	100%	Formerly-appointed (Note 10)

Other matters to be recorded:

1. If the operation of the board of directors is in any of the following circumstances, the date, duration, content of the bill, the opinions of all independent directors and the Company's handling of the opinions of independent directors shall be specified:

(1) Items specified in Article 14-3 of Securities Exchange Act. (Please refer to Page 44 to 48)
(2) Other than the foregoing matters, other matters decided by the Board of Directors upon objection or reservation of independent directors and recorded or written statement: None.

2. The directors' names, contents, reasons for avoidance and voting participation shall be specified in the execution of the avoidance of interest proposals by directors:

Date of meeting	Director's name	Content of the bill	Reason for interest withdrawal	Voting situation
2018.07.05	Chen Shui-jin Chen Jian-nan	Appointmento .theFourth Compensation .Committee of the Company	The two independent directors withdrew from the discussion and voting on the motion due to their interest.	In accordance with article 15 of the Company's "Rules for the Board of Directors", the directors shall not participate in the discussion or voting.
2018.07.05	Chen Shui-jin Chen Jian-nan	Remuneration Payment of.the.Compensation.Committee.of the.Company	The two independent directors withdrew from the discussion and voting on the motion due to their interest.	In accordance with article 15 of the Company's "Rules for the Board of Directors", the directors shall not participate in the discussion or voting.
2018.07.05	Chen Shui-jin Chen Jian-nan Li,Zong-ying Zhuang,Wen-jing	Payment to the independent directors of the Company	The four independent directors withdrew from the discussion and voting on the motion due to their interest.	In accordance with article 15 of the Company's "Rules for the Board of Directors", the directors shall not participate in the discussion or voting.

3. The objectives of strengthening the functions of the Board of Directors in the current and recent years (e.g. setting up Audit Committee, enhancing transparency of information, etc.) and evaluation of implementation:
(1) There were independent directors in 2015.
(2) Executed in accordance with the Rules for the Board of Directors

Note 1: Directors and supervisors who are legal persons shall disclose the names of shareholders and their representatives.
Note 2: (1)If a director or supervisor leaves office before the end of the year, the date of departure shall be indicated in the remarks column. The actual attendance rate (%) shall be calculated by the number of meetings of the Board of Directors and the actual number of attendances.
(2)Before the end of the year, if a director or supervisor is re-elected, the new or old directors and supervisors shall be listed and the former directors and supervisors shall be indicated in the remarks column. The actual attendance rate (%) shall be calculated by the number of meetings held by the Board of Directors and the actual number of attendances.
Note 3: Director Qiu,Li-qing took office on June 26, 2018.
Note4: Director and representative of Dinghong Investment Co., Ltd., Chen, Jen-Kuei was ...dismissed on June 26, 2018.
Note 5: Director and representative of Dinghong Investment Co., Ltd., Lai,Ru-ding took office on ..June 26, 2018.
Note 6: Independent director Li,Zong-ying took office on June 26, 2018.
Note 7: Independent director Zhuang,Wen-jing took office on June 26, 2018.
Note 8: Independent director Tsai, Chen-Teng was dismissed on June 26, 2018.
Note 9: Supervisor Qiu,Li-qing was dismissed on June 26, 2018.
Note10:Supervisor Tsai, Wu-Ying was dismissed on June 26, 2018.

2. Attendance of Supervisors at Board Meetings:

The Board meeting was held for 3 times in recent years (A), the attendance of directors and supervisors is as follows:

Title	Name	Actual attendance(B)	Actual attendance ratio (%)[B/A] (Note1)	Remarks
Supervisor	Qiu,Li-qing	3	100%	Formerly-appointed (Note 2)
Supervisor	Tsai, Wu-Ying	3	100%	Formerly-appointed (Note 2)

Other matters to be recorded:

1. Composition and duties of supervisors:

(1) Communication between supervisors and employees and shareholders of the Company:

1) The supervisor attends the Board of Directors and the shareholders' meeting of the Company to understand the operation of the Company.

2). If necessary, they should keep in touch with employees and shareholders.

(2) Communication between supervisors and internal auditors and Accountants:

1).The Audit Office regularly submits a written report to the supervisor on the internal audit situation every month.

2).The audit director shall be present at the Board meetings and make reports on internal audit operations and internal control.

3).The supervisor communicates with the Accountant on the contents of the annual financial report, understands the financial situation, and has direct contact and dialogue whenever necessary.

Date of meeting	Focus of communication	Form of meeting	Communication results
2018.03.27	1.Audit scope of financial statements	Briefing session	No other opinions
	2.Audit results of financial statements		
	3.Analysis of major financial indicators of financial statements		
	4.Discussion on the issues of the year		
	5. Key audit items for the year		
	6.Update of laws and regulations related to finance and accounting		

2. If the supervisor is present on the Board of Directors, the date, duration, content of the bill, the result of the board resolution and the Company's handling of the supervisor's statement shall be specified.: None.

Note 1: (1) If a supervisor leaves before the end of the year, the date of departure shall be indicated in the remarks column, and the actual attendance rate (%) shall be calculated by the actual number of attendances during the period of service.

(2). If a supervisor is reelected before the end of the year, the new or former supervisor shall be listed and the new or reelected supervisor shall be indicated in the remarks column. The actual attendance rate (%) shall be calculated based on the actual attendance during the term of office.

Note 2: Supervisor Qiu,Li-qing and Tsai, Wu-Ying was dismissed on June 26, 2018.

3. Audit Committee:

The Audit Committee was held for 3 times (A) in recent years and the attendance of independent directors is as follows:

Title	Name	Actual attendance(B)	Commissioned attendance	Actual attendance rate (%) [B/A] (Note)	Remarks
Independent director	Chen Shui-jin	3	-	100%	Newly-appointed (Note 3)
Independent director	Chen Jian-nan	3	-	100%	Newly-appointed (Note 3)
Independent director	Li Zong-ying	3	-	100%	Newly-appointed (Note 3)
Independent director	Zhuang Wen-jing	3	-	100%	Newly-appointed (Note 3)

Other matters to be recorded:

1. In case of any of the following situations in the operation of the Audit Committee, the date, period, contents of the Board of Directors' proposal, the resolution results of the Audit Committee and the Company's handling of the opinions of the Audit Committee shall be stated.

   (1) The items specified in Article 14-5 of Securities Exchange Act:

Date of Audit Committee	Content of the bill	Resolutions of the Audit Committee	The Company's treatment of the Audit Committee's opinions
2018.08.10	1.To audit the Company's consolidated financial statements for the second quarter of 2018. 2.To audit the case of ING Bank N.V. granting credit to our Company for reinvestment. 3.To audit the case of Fubon Bank, Suzhou Branch granting credit to our Company for reinvestment.	All the members present agreed to adopt it.	It was adopted by all the directors present on August 10, 2018.
2018.09.04	1.To audit the Company's endorsement guarantee for Merida Bicycle (Jiangsu) Co., Ltd.	All the members present agreed to adopt it.	It was adopted by all the directors present on September 4, 2018.
2018.11.09	1.To audit the case that Merida Bicycle (Shandong) Co., Ltd. entrusted a loan to Merida Bicycle (Jiangsu) Co., Ltd. 2.To audit the stipulation of the Company's audit plan for 2019	All the members present agreed to adopt it.	It was adopted by all the directors present on November 9, 2018.

   (2) Except for the foregoing matters, other matters that are not approved by the Audit Committee but agreed by more than two-thirds of all the directors: None.

2. The execution of an independent director's avoidance of an interest proposal shall state the name of the independent director, the content of the proposal, the reasons for the avoidance of interest and the situation of voting: None.
3. Communication between independent directors and internal auditors and Accountants (including important matters, methods and results of communication on Company's financial and business conditions):

Date of Audit Committee	Contents of the bill	Communication method	Communication results
2018.08.10	Business report of reinvestment company.	Briefing session	No other opinions
2018.11.09	Internal audit report	Briefing session	No other opinions

Note :

1.If an independent director leaves office before the end of the year, the date of resignation shall be indicated in the remarks column, and the actual attendance rate (%) shall be calculated based on the number of meetings of the Audit Committee and the actual attendance during his/her term of office.

2.Before the end of the year, if there is an independent director reelected, the new and former independent directors shall be listed, and the date of the new or reelected independent director shall be indicated in the remarks column. The actual attendance rate (%) shall be calculated based on the number of meetings of the Audit Committee and the number of actual attendance.

3.The Audit Committee of the Company was set up on June 26, 2018.

4. Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Practice on Corporate Social Responsibility of Listed Over-the-counter Companies and the Code of Practice on Corporate Social Responsibility
	Y	N	Summary	
1. Does the Company formulate and disclose Corporate Governance Best Practice Principles in accordance with Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies	✓		The Company has stipulated "Code of Practice for Corporate Governance" and announced it on the official website.	None
2.Corporate Ownership Structure and Shareholders' Rights and Interests (1) Does the Company have internal operating procedures for dealing with shareholders' suggestions, doubts, disputes and lawsuits and implement them in accordance with the procedures? (2) Does the Company have a list of the major shareholders and the final controllers of the major shareholders who actually control the Company? (3) Does the Company establish, implement risk control and firewall mechanisms between interested enterprises? (4) Does the Company have internal regulations that prohibit insiders from buying and selling securities using unpublished information in the market?	✓ ✓ ✓ ✓		(1) The Company has formulated the "Measures for the Management of Shareholding Operations" and has dedicated personnel to properly handle matters related to shareholder' rights and interests in accordance with the procedures. (2) The Company may at any time have a list of the major shareholders and the final controllers of the major shareholders of the company under actual control. (3) The rights and obligations between the Company and the related enterprises are clearly divided. In addition to establishing relevant operating procedures, auditors also regularly carry out audits. (4) The Company has formulated "Procedures for the Prevention of Insider Trading Management" to establish confidential operations and prohibition measures before major internal information affecting stock prices is disclosed to the public.	None
3. Composition and Duties of the Board of Directors (1) Does the Board of Directors formulate a pluralistic approach to membership and implement it? (2) Does the company voluntarily set up other functional committees besides Compensation Committee and Audit Committee according to law?	✓	✓	(1) The Company has determined the number of independent directors in the Articles of Association, and has elected 4 independent directors from non-bicycle industry. The current Board of Directors includes 3 female directors. (2) The Company has set up a Compensation Committee and an Audit Committee, and has carried out relevant business in accordance with the Company's "Organizational Rules of the Compensation Committee" and "Organizational Rules of the Audit Committee"	(1) None (2) The Company's important decision-making and management regulations, approved by the Audit Committee, are submitted to the Board of Directors for resolution and implemented by the management team. There are no obstacles.

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Practice on Corporate Social Responsibility of Listed Over-the-counter Companies and the Code of Practice on Corporate Social Responsibility
	Y	N	Summary	
(3) Does the Company have a performance evaluation system for the Board of Directors and its evaluation methods, which are evaluated annually and regularly? (4) Does the Company evaluate the independence of Accountant on a regular basis.	 ✓	✓	(3) The Company has not yet formulated a performance evaluation method for the Board of Directors. (4) The Company evaluates the independence of Accountant in the first quarter of each year and submits it to the Board of Directors. For the assessment, please refer to page 51.	(3) The Board of Directors of the Company has a clear understanding of the Company's operating objectives and tasks. The Board members have a strong awareness of their responsibilities and attach great importance to the Company's operational participation, communication and internal control. (4) None.
4. Does a listed OTC Company set up a special (part-time) corporate governance unit or personnel to be responsible for corporate governance related affairs (including but not limited to providing directors and supervisors with the necessary information to carry out business, handling the relevant matters of the meetings of the Board of Directors and shareholders' meetings according to law, registering the Company and changing the Company, making the minutes of the Board of Directors and shareholders' meetings, etc.)?	✓		1) The Company has set up special (and concurrent) direct personnel to act as the contact window for corporate governance affairs. 2) The Company and its correspondent banks, manufacturers, customers and shareholders all have special departments.	None
5. Does the Company establish communication channels with stakeholders (including but not limited to shareholders, employees, customers and suppliers), and set up stakeholder zones on its website, and properly respond to stakeholders' concerns on important issues of corporate social responsibility?	✓		The "Stakeholders" section has been set up on the Company's website, and the relevant departments have responded appropriately to the opinions of the stakeholders.	None
6. Does the Company appoint a professional stock agency to handle the affairs of the shareholder' meeting?	✓		In order to protect the rights and interests of shareholders to participate in the shareholders' meeting, the Company appoints an independent and professional stock agency to handle the relevant affairs of the shareholders' meeting.	None

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Practice on Corporate Social Responsibility of Listed Over-the-counter Companies and the Code of Practice on Corporate Social Responsibility
	Y	N	Summary	
7. Information Disclosure (1) Does the Company set up a website to disclose financial business and corporate governance information? (2) Does the Company adopt other ways of disclosure of information (e.g. setting up English websites, appointing special persons to be responsible for the collection and disclosure of Company information, implementing the spokesperson system, placing Company websites in the process of legal person's presentation, etc.)?	✓ ✓		(1) The "Investor Information" section has been set up on the Company's website to expose financial business and corporate governance information. (2) The Company has set up an English website and designated a person to be responsible for the collection and disclosure of information on Chinese and English websites. The Company has established a spokesperson system to coordinate with Company policies and the need for a unified external presentation.	None
8. Does the Company have any other important information that is helpful to understand the operation of corporate governance (including but not limited to the rights and interests of employees, employee care, investor relations, supplier relations, rights of stakeholders, further education of directors and supervisors, implementation of risk management policies and risk measurement standards, implementation of customer policies, and purchase of liability insurance for directors and supervisors)?	✓		1) Employee's rights. Employee care: refer to page 71-5. Labor-Management Relations. 2) Investor Relations: The Company has established a spokesperson system to interact with the investing public. The Chinese and English websites also designate special persons to collect, disclose and process information. 3) Supplier Relations: Our Company has always maintained good relations with suppliers. 4) Rights of Stakeholders: Stakeholders have to communicate with relevant personnel of the Company. Suggestions are made to safeguard their legitimate rights and interests. 5) Further education of directors and supervisors: The Company always encourages directors and supervisors to take part in further education, but for the sake of considering personal time and other factors, it is not mandatory. The Company provides relevant regulations for directors and supervisors at any time. The management team also regularly gives business and related briefings to directors and supervisors. [For further education of directors and supervisors, please refer to MOPS]. 6) Implementation of risk management policies and risk measurement standards: The Company has formulated various management regulations in accordance with the law as the basis for the implementation of various departments, and cooperated with internal	None

<table>
<tr><td rowspan="2">Evaluation items</td><td colspan="3">Operation situation (Note 1)</td><td rowspan="2">Differences and Reasons between the Code of Practice on Corporate Social Responsibility of Listed Over-the-counter Companies and the Code of Practice on Corporate Social Responsibility</td></tr>
<tr><td>Y</td><td>N</td><td>Summary</td></tr>
<tr><td></td><td></td><td></td><td>audits to carry out various risk management and assessment.
7) Implementation of customer policy: The company has a customer telephone service line, company website and discloses relevant information at any time to interact with the outside world.
8) Purchase of liability insurance for directors and supervisors: The Company has purchased liability insurance for directors, supervisors and key employees.</td><td></td></tr>
<tr><td colspan="5">9. Please state the improvement of the corporate governance assessment issued by the Corporate Governance Center of Taiwan Stock Exchange Co., Ltd. in recent years, and put forward priorities and measures for strengthening the assessment of those who have not yet improved. (Those who are not included in the Company are not required to fill in):
(1). Improvements in recent years:
1)The company shall upload the brochure and supplementary information of the shareholders' meeting 30 days before the meeting of the shareholders' regular meeting.
2) The company shall take a case-by-case vote on the bills of the shareholders' regular meeting and record the consent, objection and abstention of the shareholders in each bill in the proceedings.
3) The shareholders' regular meeting adopts electronic voting.
4) The Company uploads its annual report 14 days before the shareholders' regular meeting.
5)The company shall simultaneously upload the English version of the notice of the meeting 30 days before the meeting of the shareholders' regular meeting.
6) The "Code of Practice for Corporate Governance" shall be disclosed on the Company's website.
7) The "Code of Integrity Operation" and "Code of Ethical Conduct" shall be disclosed on the Company's website.
8 The "Code of Practice on Corporate Social Responsibility"shall be disclosed on the Company's website.
9) The Company's annual report discloses future R&D plans and estimated R&D costs.
10) Directors and supervisors are required to study for a specified period of time.
11) The prescribed number of hours for the independent director's further education.
12) The establishment of Audit Committee.
13)Upload the annual report and annual financial report of the shareholder' meeting in English 7 days before the shareholders'' meeting.
(2).Those who have not yet improved put forward priorities and measures for strengthening:
1) Prepare and announce interim financial reports in English.
2)Regularly handle the legal person's meeting.
3)Methods of self-evaluation or peer-evaluation by the Board of Directors of the Company.</td></tr>
</table>

Note: Operational conditions, whether checked yes or no should be specified in the Summary column.

5. Composition, Responsibilities and Operation of the Compensation Committee

(1).The composition of Compensation Committee:

1)On July 1, 2015, the 3rd Compensation Committee of the Company was approved by the Fifth Board Resolution of the Company in 2015. Mr. Chen, Shui-Jin, Mr. Chen,Jian-Nan and Mr. Tsai, Hui-Yan were appointed as members.

2)On July 5, 2018, the Company's 4th Compensation Committee was approved by the resolution of Company's Fifth Board of Directors in 2018. Mr. Chen Shui-jin, , Mr. Chen, Jian-Nan, Mr. Lin, Fu-Shing and other three persons were appointed to serve as members. Their term of office began on July 5, 2018 and expired on June 25, 2021 with the current board of directors.

3)The 4th First Compensation Committee Meeting was held on August 30, 2018. The members present unanimously elected Chen Shui-jin as convener.

4)3 meetings were convened in 2018.

5)Information of Compensation Committee members:

Identity (Note 1)	Condition / Names	Whether have more than 5 years working experience and the following professional qualifications			Compliance with independence (Note 2)								Number of members of the Compensation Committee of other public issuing companies	Remarks (Note 3)
		Lecturers in public and private colleges or universities are required for business, legal, financial, accounting or Company business.	Judges, prosecutors, lawyers, Accountants or other professionals and technicians who have passed the national examination required for their business with the Company	Experience in business, forensic, financial, accounting or Company business	1	2	3	4	5	6	7	8		
Independent director	Chen Shui-jin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	4	
Independent director	Chen Jian-nan	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Others	Lin, Fu-Hsing	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1:Please fill in director, independent director or others in Identity column.

Note 2:Members who meet the following requirements in the first two years of their election and during their tenure of office should check "✓".

1.Not an employee of a Company or its affiliated enterprises.

2.Not director or supervisor of the Company or its affiliated enterprise. However, if it is a Company or its parent Company, the independent directors set up by the subsidiary Company in accordance with this Law or the local laws and decrees shall not be subject to this limitation.

3.A natural person shareholder who is not himself or his spouse, a minor child or in the name of another person holds more than one percent of the total amount of shares issued by the Company or holds 10%of the shares.

4.Not the spouses of persons listed in the preceding three paragraphs, relatives within the second or third generations.

5.Directors, supervisors or employees who do not directly hold more than 5% of the total amount of shares issued by the Company, or directors, supervisors or employees who hold shares in the top five shareholders of the Company.

6.Director (directors), supervisor (supervisors), managers or shareholders holding more than 5% of the shares of a specific Company or institution that does not have financial or business relations with the Company.

7.Professionals, sole proprietors, partners, business owners, partners, directors (directors), supervisors (supervisors), managers and their spouses who do not provide business, legal, financial, accounting services or consultation to companies or their affiliates.

8.There is no one of the items in Article 30 of the Company Law.

(2).Responsibilities of Compensation Committee:

To evaluate the remuneration policies and systems of the company's directors, supervisors and managers in a professional and objective manner,, and to make recommendations to the Board of Directors for their decision making. Functions and powers are as follows:

1).Review this Code regularly and propose amendments.

2).To formulate and regularly review the policies, systems, standards and structure of remuneration for directors, supervisors and managers of the Company.

3).To regularly evaluate the achievement of the performance goals of the Company's directors, supervisors and managers, and to review the content and amount of their Independent remuneration.

(3)Operation of Compensation Committee:

1)The Company has 3 members of the Compensation Committee.

2)Term of office of the current Board of Directors: from July 5, 2018 to June 25, 2021. The Compensation Committee was held for 3 times (A) in 2018. Membership and attendance are as follows:

Title	Name	Actual attendance (B)	Commissioned attendance	Actual attendance rate (%) [B/A]	Remarks
Convener	Chen, Shui-jin	3	-	100%	Reappointed (Note 3)
Member	Chen, Jian-nan	3	-	100%	Reappointed (Note 3)
Member	Lin, Fu-Hsing	1	-	100%	Newly-appointed (Note 3)
Member	Tsai, Hui-Yan	2	-	100%	Formerly-appointed (Note 3)

Other matters to be recorded:

1. If the Board of Directors fails to adopt or amend the recommendations of the Compensation Committee, it shall state the date, duration, content of the bill, the results of the resolutions of the Board of Directors and the treatment of the Company's opinions on the Compensation Committee (if the Board of Directors adopts a proposal that the remuneration is better than that of the Compensation Committee, it shall state the differences and reasons): None.
2. If a member has objections to the resolution of the Compensation Committee or reservations and has a record or written statement, the date, duration, content of the proposal, the opinions of all members and the treatment of the opinions of the members shall be specified.: None

Note:

1.If a member of the Compensation Committee leaves before the end of the year, the date of departure shall be indicated in the remarks column. The actual attendance rate (%) shall be calculated by the number of meetings of the Compensation Committee and its actual attendance during the service period.

2.If there is a new member of the Compensation Committee elected before the end of the year, the new member or the former member of the Compensation Committee shall be listed and the new member or the date of reelection and reelection shall be indicated in the remarks column. The actual attendance rate (%) shall be calculated based on the number of meetings of the Compensation Committee and the actual attendance during his/her term of office.

3.The Compensation Committee was re-elected on July 5, 2018.

6. Corporate Social Responsibility:

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Practice on Corporate Social Responsibility of Listed Over-the-counter Companies and the Code of Practice on Corporate Social Responsibility
	Y	N	Summary (Note 2)	
1. Implementing Corporate Governance (1) Does the Company formulate a corporate social responsibility policy or system and review the effectiveness of its implementation?	✓		(1) 1).The Company has formulated the Code of Practice on Corporate Social Responsibility and published it on its website. 2).Effectiveness of implementation: ① Environmental protection: The company has a "Occupational Safety and Health Office" which is responsible for environmental protection and staff safety and hygiene to implement environmental protection management, such as water saving, carbon saving and greenhouse gas reduction. We are committed to the utilization of resources, waste sorting, waste reduction, recycling and reuse by manufacturers to reduce the impact of environmental pollution; In view of air pollution, waste water and waste disposal, relevant operating procedures are stipulated by law; energy saving and carbon reduction policies are implemented, such as: purchasing all kinds of financial instruments with low energy consumption, green energy as a priority consideration, setting room temperature at 28℃, automatic power control of lighting device, etc., in order to reduce energy waste. ② Community participation, social contribution, social service, social public welfare: A.Charitable donations, grants are made to play the spirit of giving back to the society. B.Regularly or irregularly participate in and sponsor various public welfare and environmental protection activities of community groups near the company, such as: (A)Adoption, maintenance and management of air quality purification zone in Changhua County with an area of 2.62 hectares of green land, and has been selected as the excellent adoptive unit of the National Air Quality Purification Zone of the EPA for successive years. (B)Sponsor community support teams, volunteer police officers, volunteer fire fighters, elementary and secondary school activity funds or bicycles. (C)Winter relief in the village	None

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Practice on Corporate Social Responsibility of Listed Over-the-counter Companies and the Code of Practice on Corporate Social Responsibility
	Y	N	Summary (Note 2)	
(2) Does the Company conduct social responsibility education training on a regular basis? (3) Does the Company set up special (part-time) units to promote corporate social responsibility, which are authorized by the Board of Directors to deal with by senior management and report to the Board of Directors? (4) Does the Company formulate a reasonable salary and remuneration policy, combine employee performance appraisal system with corporate social responsibility policy, and establish a clear and effective reward and punishment system?	✓ ✓ ✓		(D)Sponsor the village environmental sanitation, and the volunteer team to maintain the surrounding environment. (2) The Company will inform directors, supervisors, insiders and employees of relevant management units of relevant courses such as corporate social responsibility at any time. (3) The corporate social responsibility responsible unit of the Company shall be held concurrently by the President's Office, responsible for planning and promotion. (4) The Company's various salary payments, employee welfare provisions have taken into account the basic salary and performance of employees. It has also formulated "Rules of Work" as rewards and penalties, and approved by the board of directors, so that employees can follow relevant regulations and internal control mechanisms to implement the spirit of corporate social responsibility.	
2. Development of Sustainable Environment (1) Is the Company committed to improving the utilization efficiency of resources and using recycled materials with low impact on the environment? (2) Does the Company establish an appropriate environmental management system according to its industrial characteristics? (3) Does the Company pay attention to the impacts of climate change on operational activities and carry out greenhouse gas inventory and formulate energy-saving and carbon reduction strategies for the Company?	✓ ✓ ✓		(1) The Company is committed to the utilization of various resources, the implementation of waste, garbage classification, reduction, recycling and reprocessing by the manufacturer, to reduce the impact of environmental pollution. (2) Our company stipulates relevant operating procedures for air pollution, waste water and waste disposal according to law. (3) The Company has a "Occupational Safety and Health Office" which is responsible for environmental protection and staff safety and hygiene to implement water saving, energy-saving, carbon reduction and greenhouse gas reduction and other environmental protection and management, such as, taking the priority to purchase all kinds of fixtures with low energy consumption, setting the room temperature at 2828°C, the application of lighting devices with automatic power control, so as to reduce the waster of energy.	None

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Practice on Corporate Social Responsibility of Listed Over-the-counter Companies and the Code of Practice on Corporate Social Responsibility
	Y	N	Summary (Note 2)	
3. Maintaining Social Public Welfare (1) Does the Company formulate relevant management policies and procedures in accordance with relevant laws and regulations and international human rights conventions? (2) Does the company build a complaint mechanism and channel for employees and handle it properly? (3) Does the Company provide a safe and healthy working environment for employees, and regularly implement safety and health education for employees? (4) Does the Company establish a mechanism for regular communication among employees and inform them in a reasonable way about changes in operations that may have a significant impact on employees? (5) Does the Company establish an effective career development training program for employees?	✓ ✓ ✓ ✓ ✓		(1) In accordance with the relevant labor laws and regulations, the Company has formulated relevant management provisions such as "Rules of Work", "Measures for Punishment of Complaints against Sexual Harassment in the Workplace" and "Employee Appointment and Dismissal" to protect employees' rights and interests. (2) In addition to reporting and appealing to the supervisor of the Company, the employees of the Company shall set up an independent e-mail box to manage and deal with special cases. (3) 1).The Company provides annual physical examination for employees, and the Occupational Safety and Health Office regularly holds work safety education and training, and arranges relevant personnel to participate in external professional education and training and obtain professional certificates. 2).The Company has signed a monthly on-site service contract with doctors with professional certificates of occupational medicine to provide staff health services such as staff health education and medical consultation. (4) 1). The Company holds a monthly meeting for all employees, and the senior manager reports on the Company's operation status, so that employees can timely understand the Company's operation situation. 2). .In the daily and weekly morning meeting, the supervisor will publicize various policies of the Company. Besides sharing work experience, employees can also respond to various problems at any time. 3). The Company has a Labor Union which holds member conference on a regular basis. By the Labor Union, the employees can have more diversified channels when communicating with the Company. (5) 1)..Considering the need of talent development, the Company has formulated an annual education and training program, which includes: management function training for cadres at all levels, professional function training for employees at all positions, law and regulation promotion related to employees, general function training, field multi-functional training, etc. 2).In order to strengthen their functional development and market competitiveness, the supervisors of each competent unit of the Company may arrange the courses offered by external professional training institutions	None

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Practice on Corporate Social Responsibility of Listed Over-the-counter Companies and the Code of Practice on Corporate Social Responsibility
	Y	N	Summary (Note 2)	
			according to the needs of employees.	
(6) Does the Company formulate relevant consumer protection policies and appeal procedures on R&D, procurement, production, operations and service processes?	✓		(6) In order to protect the rights and interests of consumers, the Company has set up Chinese and English websites and a special d service line for consumers.	
(7) Does the Company comply with relevant regulations and international standards in marketing and labeling of products and services?	✓		(7) The marketing and labeling of our products and services are in accordance with relevant domestic and export laws and international standards.	
(8) Does the Company evaluate whether the supplier has a record of impacting the environment and society in the past when moving forward with the supplier?	✓		(8) In accordance with customer requirements or relevant laws and regulations of the exporting country and international standards, the Company will work with suppliers to evaluate whether the suppliers are suitable or not.	
(9) Does the contract between the Company and its main suppliers contain the terms of the contract that the supplier may terminate or terminate at any time if it violates its corporate social responsibility policy and has a significant impact on the environment and society?	✓		(9) The Company may terminate or discharge the contract with the supplier at any time when it violates the customer demand or relevant laws and regulations of the exporting country and international standards. The Company is committed to jointly abide by the principle of integrity operation with the supplier and fulfill its social responsibility.	
4. Enhancing Information Disclosure (1) Does the Company disclose relevant information on CSR that is relevant and reliable on its website and MOPS?	✓		(1) All financial and business related information of the company is timely disclosed on the company's website and on "MOPS" in accordance with the regulations of the competent authority	None
5.If a Company has its own code of corporate social responsibility in accordance with the Code of Practice for Corporate Social Responsibility of Listed Over-the-counter Companies, please describe the differences between its operation and the codes: The Company's Code of Corporate Social Responsibility (CSR) is disclosed on the Company's website. There is no difference between the operation and content of the Code.				
6.Other important information to help understand the operation of corporate social responsibility: In order to safeguard the rights and interests of consumers, our company has set up Chinese and English websites and set up consumer service lines, and designated special persons to be responsible for collection and service of various information.				
7.If the CSR report of a Company passes the verification criteria of the relevant certification bodies, it shall state: None.				

Note 1: The statements shall be made in Summary column no matter if Y or N is checked in Operation situation column.
Note 2: Where a Corporate Social Responsibility Report has been prepared by the Company, the Summary shall indicate the method of consulting the CRS Report and the inquiry page.

7. I Ethical Corporate Management:

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Integrity Management and Listed OTC Companies
	Y	N	Summary	
1. Formulating Integrity Management Policies and Programs (1) Does the Company express its policies and practices of integrity management in its regulations and foreign documents, and the commitment of the Board of Directors and management to actively implement its business policies? (2) Does the Company formulate a plan to prevent dishonest conduct, and specify operating procedures, guidelines for conduct, disciplinary and appeal systems for violations in all plans, and implement them? (3) Does the Company take preventive measures against the business activities with high risk of dishonesty within the scope of Article 7, paragraph 2, or other business areas of the Code of Integrity Management for Listed Over-the-counter Companies?	✓ ✓ ✓		(1) 1).The Company has set Code of Integrity Management and published it on the Company's website. 2).Our business philosophy: under the guidance of honest and strong business mind, we will create unlimited competitiveness and give back to our customers. 3).To deepen the corporate culture of integrity management and improve the business operation structure. (2) Although the Company has not formulated a special chapter on the prevention of dishonest behavior, it is found in the management regulations of various business activities. In order to ensure business integrity, the Company has established an effective accounting system and internal control system, including relevant reward and punishment management provisions, and internal auditors regularly check the implementation of the relevant system to ensure the implementation of management integrity. (3) The Company has formulated various business activities management regulations, and submitted in accordance with the provisions of the audit before implementation, in order to prevent and eliminate illegal acts.	None
2. Implementation of Integrity Management (1) Does the Company evaluate the integrity records of its clients and specify the terms of integrity in its contracts with the clients? (2) Does the Company set up a full-time (part-time) unit affiliated to the Board of Directors to promote the integrity of the enterprise and report regularly to the Board of Directors on its implementation? (3) Does the Company formulate policies to prevent conflicts of interest, provide appropriate channels for presentation, and implement them?	✓ ✓	 ✓	(1) Before the transaction, the Company shall evaluate the credit records of the clients. All transactions shall be conducted in accordance with the relevant management regulations of the Company. Internal auditors shall also audit all transactions from time to time to prevent illegal behaviors. (2) The Company has not yet set up a dedicated (part-time) unit to promote the integrity of business operations, which is responsible for the audit and performance of the integrity of business responsibility by the departments in accordance with their responsibilities. The internal auditors also audit transactions from time to time, and the audit records are regularly reported to the supervisor, the Audit Committee and the Board of Directors. (3) The Company's "Procedures for Board of Directors", "Procedures for the Prevention of Insider Trading Management", "Code of Integrity Management", "Code of Ethical Conduct" and various management	None

Evaluation items	Operation situation (Note 1)			Differences and Reasons between the Code of Integrity Management and Listed OTC Companies
	Y	N	Summary	
(4) Has the Company established an effective accounting system and internal control system for the implementation of integrity management, which are checked regularly by internal auditing units or entrusted to Accountants? (5) Is the Company conducting internal and external education and training on a regular basis?	✓ ✓		provisions specify the principle of avoidance of interests of directors, supervisors, managers and employees, and internal auditors do not audit from time to time. (4) The Company has established an effective accounting system and internal control system, and internal auditors regularly check the implementation of relevant systems to ensure the implementation of integrity management. (5) The Company will inform directors, supervisors, members of Audit Committee, insiders and relevant management units of relevant training courses such as corporate governance and integrity management at any time.	
3. Operation of the integrity channel (1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up? (2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases? (3) Does the company provide proper whistleblower protection?	✓ ✓ ✓		(1) In addition to reporting to the head of the Company, employees of the company can announce the reporting of pipeline mailboxes and telephone calls on the Company's website, which shall be handled by a special management project. (2) Upon receipt of the information provided by the informant, the Company will assign a special person to handle the case. The process and the information will be kept confidential and the informant will not be improperly disposed of.Ditto. (3) Ditto.	None
4. Enhancing Information Disclosure (1) Does the Company disclose the contents of its Code of Integrity Management and promote its effectiveness on its website and MOPS?	✓		(1) The Company has stipulated Code of Integrity Management and published it to the Company's website.	None
5. If a Company has its own code of integrity management in accordance with the Code of Good faith for Listed Over-the-counter Companies, please describe the differences between its operation and the codes: None.				
6. Other important information that will help us to understand the integrity management of the Company (e.g. when the Company reviews and amends its Code of Integrity Management): Our Company's purchasing and sales units hold regular purchasing and sales meetings to invite manufacturers and customers to discuss various topics to avoid involving dishonest behavior.				

Note 1: The statements shall be made in Summary column no matter if Y or N is checked in Operation situation column.

8. If the Company has established a code of corporate governance and related regulations, it shall disclose its inquiry methods:

   It has been published in Company's website: http://www.merida.tw

9. Other important information that can enhance the understanding of the operation of corporate governance should be disclosed together:

   The Company's financial and business related information is timely disclosed on the Company's website, and regularly or irregularly disclosed on "MOPS" in accordance with the regulations of the competent authorities.

10. Implementation of Internal Control System:

(1). Internal Control Statement

MERIDA INDUSTRY CO., LTD.

Internal Control Statement

Date: March 22, 2019

Based on the results of our self-assessment, the Company's internal control system for 2018 is hereby declared as follows:

1. The company knows that it is the responsibility of the board of directors and managers of the company to establish, implement and maintain the internal control system. The company has established this system, which aims to ensure the effectiveness and efficiency of operation (including profit, performance and asset security), reliability, timeliness, transparency and compliance with relevant norms and regulations.
2. The internal control system has its inherent limitations. No matter how perfect the design is, an effective internal control system can only provide reasonable assurance for the achievement of the above three objectives. Moreover, due to the change of environment and circumstances, the effectiveness of the internal control system may change accordingly. However, the Company's internal control system has a self-monitoring mechanism. Once the deficiencies are identified, the Company will take corrective action.
3. The Company judges whether the design and implementation of the internal control system is effective according to the judgment items of the effectiveness of the internal control system stipulated in the Standards for Publicly Held Companies to Internal Control Systems (hereinafter referred to as "Standards"). The internal control system adopted in the "Standards" judges that the project is a process of management control and divides the internal control system into five elements: 1. Control environment, 2. Risk assessment, 3. Control operations, 4. Information and communication, and 5. Supervision of operations. Each component element also includes several items. For the above items, please refer to the provisions of the "Standards".
4. The Company has adopted the above-mentioned judgment items of internal control system to evaluate the effectiveness of the design and implementation of internal control system.
5. Based on the results of the foregoing assessment, the Company considers that the design and implementation of its internal control system (including supervision and management of its subsidiaries) on 31 December 2018, including the understanding of the effectiveness of operations and the extent to which efficiency objectives have been achieved, are reliable, timely, transparent and in compliance with relevant norms and regulations and the compliance with relevant internal control systems, are effective and reasonably ensuring hat the above objectives are achieved.
6. This statement will be the main content of the annual report and the public instructions of the Company and will be made public to the public. If any of the above-mentioned contents are false or concealed, they will be involved in the legal liabilities of Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This statement has been approved by the Board of Directors of our Company on March 22, 2019. Of the 13 directors present, 0 have objections. The rest agree with the contents of this statement and make this statement.

MERIDA INDUSTRY CO., LTD.

Chairman:Zeng,Song-zhu

President:Zeng,Song-zhu

Note 1:If the design and implementation of the internal control system of the public issuing company has significant deficiencies in the year, an additional explanatory paragraph shall be added in paragraph 4 of the internal control system declaration to list and explain the significant deficiencies found in the self-assessment, as well as the improvement actions and situations taken by the Company before the balance sheet date.

Note 2:The date of declaration is "the end of fiscal year".

(2).Audit report on the internal control system by the entrusted Accountant: None.

11.Penalties imposed by the Company and its internal personnel in accordance with the law, penalties imposed by the Company for violation of the internal control system for its internal personnel, major deficiencies and improvements in recent years and up to the date of publication of the annual report: None.

12.Major Resolutions of Shareholders' Meeting and Board Meetings:

(1). Shareholders' regular meeting: held on June 26, 2018.

1). Important resolutions and implementation:

A. Passed the amendment to the Articles of Association of the Company
Implementation: According to the resolution of the shareholder' meeting, the Articles of Association of the Company shall be amended and published on the Company's website after completing the registration of the change with the Ministry of Economic on July 27, 2018.

B. Passed the amendment to "Methods for Appointment of Directors and Supervisors"
Implementation: As amended by the resolution of the shareholders' meeting, it has been published on the MOPS and the Company's website.

C. Passed the amendment to "Procedures for the Acquisition and Disposal of Assets".
Implementation: As amended by the resolution of the shareholders' meeting, it has been published on the MOPS and the Company's website and processed according to the amended Procedures.

D. Passed the amendment to "Procedures for Lending Loans to Others and Endorsement & Guarantee"
Implementation: As amended by the resolution of the shareholders' meeting, it has been published on the MOPS and the Company's website and processed according to the amended Procedures.

E. Passed the recognition of Business Report, Independent and Consolidated Financial Statements of 2017
Implemented: It has been published on MOPS according to the resolution of shareholders' meeting.

F. Passed the recognition of surplus distribution of 2017
Implementation: In the earnings allocation plan for 2018, cash dividend was NTD$2.0 per share. According to the 5th Board Resolution of 2018, August 15, 2018 was set as the base date for distribution, and the distribution was completed on September 7, 2018.

G. Re-election of director (including independent director) of the Company Result of election:
(A) List of directors elected: Zeng,Song-zhu、Zeng,Song-ling、Zenglu, Min-hua、Qiu,Li-qing、Dinghong Investment Co., Ltd.Representative-Zheng, Wen-xiang.Cai,Xue-liang.Yuan,Qi-bin.:Lai,Ru-ding：4member seats 、
Dingcheng Investment Co., Ltd. Representative – Zeng,Hui-juan 1member seats.
(B)List of independent directors elected:Chen Shui-jin.Chen Jian-nan.Li Zong-ying.Zhuang Wen-jing.

H. Passed the removal of restrictions on competition by new directors of the Company
Implementation:It has been published on MOPS according to the resolution of shareholders' meeting.

(2) Board of Directors' Meeting:

1) The 1st board of directors' meeting of 2018 was held on January 23, 2018.

A. Our Company's year-end bonus payment plan for 2017
Resolution: all the directors and independent directors present agree to adopt it.

B. The Company's staff salary structure adjustment plan
Resolution: all the directors and independent directors present agree to adopt it.

C. The fund lending of the Company

Resolution: all the directors and independent directors present agree to adopt it.

D. Personnel change of the Company

Resolution: all the directors and independent directors present agree to adopt it.

2) The 2nd Board of Directors' meeting of 2018 was held on March 27, 2018.

A.Report on the implementation of the Company's "Plan to Improve the Ability of Self-compiling Financial Reporting"

B.Overview Report of the Company's Investments at the End of 2017

C.The Independence and Competency Assessment Report of the Company's Accountant

D.Employee Remuneration and Director and Supervisor Remuneration Distribution in 2017

Resolution: all the directors and independent directors present agree to adopt it.

E.Recognition of the Company's Business Report for 2017

Resolution: all the directors and independent directors present agree to adopt it.

F.Recognition of the Company's Independent and Consolidated Financial Statements for 2017

Resolution: all the directors and independent directors present agree to adopt it.

G.Recognition of the Company's Earnings Distribution in 2017

Resolution: all the directors and independent directors present agree to adopt it.

H.The Company's Internal Control System Statement Review for 2017

Resolution: all the directors and independent directors present agree to adopt it.

I.The Company's Employee Salary Increase Program for 2018

Resolution: all the directors and independent directors present agree to adopt it.

J.The Company's Funds Lending

Resolution: all the directors and independent directors present agree to adopt it.

K.Re-election of Directors of the Company

Resolution: all the directors and independent directors present agree to adopt it.

L.Date, Place, Agenda and Related Matters of the 2018 Shareholders' Regular Meeting of the Company

Resolution: all the directors and independent directors present agree to adopt it.

M.The period, place and related matters of the acceptance of shareholder's proposal right at the 2018 Shareholders' Regular Meeting of the Company

Resolution: all the directors and independent directors present agree to adopt it.

N.The period, place and related matters of acceptance of the right to nominate independent director candidates at the 2018 Shareholders' Regular Meeting of the Company

Resolution: all the directors and independent directors present agree to adopt it.

3). The 3rd Board of Directors' Meeting of 2018 was held on May 11, 2018.

A.Report on Internal Audit of the Company

B.Consolidated Financial Statements Report for the First Quarter of 2018

C.Overview Report of the Company's Investment Business in the First Quarter of 2018

D.Report on the Operational Status of Different Areas of the Group

E.Examination of the qualifications of candidates nominated by independent directors of the Company

Resolution:all the directors present agreed to adopt it and submit it to the shareholders' meeting for election.

F.The removal of restrictions on competition by new directors of the Company

Resolution: all the directors and independent directors present agree to adopt it.

G.Amendment to the Articles of Association of the Company

Resolution: all the directors and independent directors present agree to adopt it.

H.Amendment to the "Method for the Selection of Directors and Supervisors of the Company"

Resolution: all the directors and independent directors present agree to adopt it.

I.Amendment to the Procedures for the Acquisition or Disposal of the Assets of the Company

Resolution: all the directors and independent directors present agree to adopt it.

J.Amendment to “Procedures for Lending Loans to Others and Endorsement & Guarantee” of the Company
Resolution: all the directors and independent directors present agree to adopt it.
K.Amendment to the Code for Integrity Management of the Company
Resolution: all the directors and independent directors present agree to adopt it.
L.Amendment to the Code of Ethical Conduct of the Company
Resolution: all the directors and independent directors present agree to adopt it.
M.Stipulation of Organizational Rules for Audit Committee of the Company
Resolution: all the directors and independent directors present agree to adopt it.
N.Amendment to the Rules for the Board of Directors of the Company
Resolution: all the directors and independent directors present agree to adopt it.
O.Amendments to the Company’s Code of Practice on Corporate Governance
Resolution: all the directors and independent directors present agree to adopt it.
P.Amendments to the Company’s Procedures for Preventing Insider Trading Management
Resolution: all the directors and independent directors present agree to adopt it.
Q.Amendments to the Procedure for Suspension and Restoration of Transactions filed by the Company
Resolution: all the directors and independent directors present agree to adopt it.
R.The Company’s Fund Lending
Resolution: all the directors and independent directors present agree to adopt it.
S.Credit grants for 「Merida & Centurion Germany GmbH」
Resolution: all the directors and independent directors present agree to adopt it.

4) The 4th Board of Directors’ Meeting of 2018 was held on June 26 2018.
A.Proposal to Elect the Current Chairman of the Company
Resolution: The directors and independent directors present unanimously agreed to appoint Zeng,Song-zhu as chairman.
B.Proposal to Elect the Vice-Chairman of the Company
Resolution: the directors and independent directors present unanimously agreed to appoint Zeng,Song-ling as vice-chairman.

5) The 5th Board of Directors of 2018 was held on July 5, 2018.
A.The schedule finalization of the earnings payment of cash dividends on common stock in 2017 of the Company
Resolution: The directors and independent directors present agree to adopt it.
B.Appointment of the Fourth Compensation Committee of the Company
Resolution:When discussing and voting, the independent directors Chen,Shui-jin and Chen,Jian-nan left the venue for avoidance of interest and did not participate in the discussion and voting. The remaining directors and independent directors agreed to form the Fourth Compensation Committee of the Company by employing Mr. Chen,Shui-jin. Mr. Chen,Jian-nan and Mr. Lin, Fu-Hsing, etc. The term of office of the Board of Directors shall be from the date of adoption to the date of expiration of the term of office of the Board of Directors on June 25, 2021.
C.The Remuneration Payment of the Company’s Compensation Committee
Resolution:When discussing and voting, the independent directors Chen,Shui-jin and Chen,Jian-nan left the venue for avoidance of interest and did not participate in the discussion and voting. The remaining directors and independent directors agreed to adopt it.
D.Remuneration Payment for the Directors of the Company
Resolution:When discussing and voting, the independent directors Chen, Shui-jin and Chen,Jian-nan, Li,Zong-ying and Zhuang,Wen-jing left the venue for avoidance of interest and did not participate in the discussion and voting. The remaining directors agreed to adopt it.
E.Personnel Change of the Company
Resolution: all the directors and independent directors present agree to adopt it.

6) The 6th Board of Directors' Meeting of 2018 was held on August 10, 2018:

A.Report on Internal Audit of the Company

B.Consolidated Financial Statements Report for the Second Quarter of 2018

C.The Company's Investment Overview Report for the Second Quarter of 2018

D.Report on the Operational Status of Different Areas of the Group

E.Credit grants to ING Bank N.V.for re-investment

Resolution: all the directors and independent directors present agree to adopt it.

F. Credit grants of ING Bank N.V. to our Company

Resolution: all the directors and independent directors present agree to adopt it.

G.Fubon Bank, Suzhou Branch credit granted to our Company for reinvestment.

Resolution: all the directors and independent directors present agree to adopt it.

H.Fund Lending of the Company

Resolution: all the directors and independent directors present agree to adopt it.

7). The 7th Board of Directors' Meeting of 2018 was held on September 4, 2018.

A.Amendment to the Remuneration Payment for Directors and Supervisors of the Company

Resolution: all the directors and independent directors present agree to adopt it.

B.Amendments to the Measures for Employee Remuneration Issuance of the Company

Resolution: all the directors and independent directors present agree to adopt it.

C.Remuneration of Directors and Supervisors in 2017

Resolution: all the directors and independent directors present agree to adopt it.

D.Remuneration of Employees in 2017

Resolution: all the directors and independent directors present agree to adopt it.

E.Personnel Change of the Company

Resolution: all the directors and independent directors present agree to adopt it.

F.The Company's Endorsement & Guarantee Case for Merida Bicycle (Jiangsu) Co., Ltd.

Resolution: all the directors and independent directors present agree to adopt it.

8). The 8th Board of Directors' Meeting of 2018 was held on November 9, 2018:

A.Report on Internal Audit of the Company

B.Report on the Company's Purchase of Director and Manager Liability Insurance

C.Consolidated Financial Statements Report for the Third Quarter of 2018

D.The Company's Investment Overview Report for the Third Quarter of 2018

E.Fund Lending of the Company

Resolution: all the directors and independent directors present agree to adopt it.

F.Merida Bicycle (Shandong) Co., Ltd. Entrusted Loan to Merida Bicycle (Jiangsu) Co., Ltd.

Resolution: all the directors and independent directors present agree to adopt it.

G.Proposal to adopt the Company's 2019 audit plan.

Resolution: all the directors and independent directors present agree to adopt it.

9) The 1st Board of Directors' Meeting of 2019 was held on January 25, 2019:

A.Annual Bonus Payment for Employees of Our Company in 2018

Resolution: all the directors and independent directors present agree to adopt it.

B.Revision of Employee's Functional Salary

Resolution: all the directors and independent directors present agree to adopt it.

C.Amendment to the Organizational Rules of the Compensation Commission of the Company

Resolution: all the directors and independent directors present agree to adopt it.

D. Amendment to the "Procedures for the Acquisition or Disposal of the Assets"

Resolution: all the directors and independent directors present agree to adopt it.

E.Stipulation of the "Procedures for the Transaction Management of Interested Parties"

Resolution: all the directors and independent directors present agree to adopt it.

F.Fund Lending of the Company

Resolution: all the directors and independent directors present agree to adopt it.

G. Stipulation of "Procedures for the Acquisition or Disposal of Assets" for Merida & Centurion Germany GmbH
Resolution: all the directors and independent directors present agree to adopt it.
H.Factory Expansion of Merida & Centurion Germany GmbH- HIBU
Resolution: all the directors and independent directors present agree to adopt it.
I.Capital Increase of the Company to Merida & Centurion Germany GmbH
Resolution: all the directors and independent directors present agree to adopt it.

10) The 2nd Board of Directors' Meeting of 2019 was held on 22 March 2019:
A.Report on Internal Audit of the Company
B.Annual Business Report of the Company for 2018
C.Annual Business Plan Report of the Company for 2019
D.Report on the Operational Status of Different Areas of the Group
E.Employee Remuneration and Distribution of Directors and Supervisors in 2018
Resolution: all the directors and independent directors present agree to adopt it.
F.Recognition of the Company's Annual Business Report for 2018
Resolution: all the directors and independent directors present agree to adopt it.
G.Recognition of the Company's Independent and Consolidated Financial Statements for 2018
Resolution: all the directors and independent directors present agree to adopt it.
H.Recognition of the Company's Earnings Distribution in 2018
Resolution: all the directors and independent directors present agree to adopt it.
I.Amendment to "Procedures for Lending Loans to Others and Endorsement & Guarantee" of the Company
Resolution: all the directors and independent directors present agree to adopt it.
J.Review of the Company's Internal Control System Statement for 2018
Resolution: all the directors and independent directors present agree to adopt it.
K.Amendments to the Documents of the Company's Internal Control System
Resolution: all the directors and independent directors present agree to adopt it.
L. Fund Lending of the Company
Resolution: all the directors and independent directors present agree to adopt it.
M.The Company Invested in the Merida Bicycle (Vietnam) Co., Ltd.
Resolution: all the directors and independent directors present agree to adopt it.
N.The Independence and Competency Assessment of Accountant
Resolution: all the directors and independent directors present agree to adopt it.
O.Public Audit Fees of Accountant of 2019 of the Company
Resolution: all the directors and independent directors present agree to adopt it.
P. Employee's Salary Increase in 2019
Resolution: all the directors and independent directors present agree to adopt it.
Q.Personnel Change of the Company
Resolution: all the directors and independent directors present agree to adopt it.
R.Date, Place, Agenda and Related Matters of the Company's of Shareholders' Regular Meeting in 2019
Resolution: all the directors and independent directors present agree to adopt it.
S.The period, place and related matters of acceptance of the right to nominate at the 2019 Shareholders' Regular Meeting of the Company
Resolution: all the directors and independent directors present agree to adopt it.

13.Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None.

14.Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Chief Accountant, Internal Audit and R&D: None.

iv. Audit Fee

The Company's public accounting fees shall be submitted to the Board of Directors for approval after being examined and approved by the Audit Committee.

<table>
<tr><th>Name of accounting firm</th><th colspan="2">Name of Accountant</th><th>Audit period</th><th>Remarks</th></tr>
<tr><td>Deloitte & Touche</td><td>Shu-Chin Chiang</td><td>Lie-Dong Wu</td><td>October 1, 2016~December 31, 2018</td><td rowspan="2">Internal personnel change of the accounting firm</td></tr>
<tr><td>Deloitte & Touche</td><td>Shu-Chin Chiang</td><td>Done-Yuin Tseng</td><td>Since January 1, 2019</td></tr>
</table>

Note: If there is any replacement of Accountants or accounting firms in our company this year, please indicate the period of audit and the reasons for replacement in the notes.

Unit:NTD$ 1,000

Remuneration scale \ Public expenses		Public expenses of audit	Non-audit public expense	Total amount
1	Below 2,000			
2	2,000 (included)～4,000		✓	
3	4,000 (included)～6,000			
4	6,000 (included)～8,000	✓		
5	8,000 (included)～10,000			✓
6	More than 10,000 (included)			

(1) In case the non-audit expenses of the Accountant's affiliated firm and its affiliated enterprises is more than 1/4 of the audit expenses, it shall disclose the amount of audit and non-audit expenses and the content of non-audit services

Unit: NTD$ 1,000

No. \ Public expenses	Public expenses of audit	Non-audit public fees	Service content of non-audit public fees
1	6,255		
2.		2,562	Transfer pricing and business registration

(2) If the audit fees paid in the replacement year are less than those paid in the previous year, the amount, proportion and reasons of the reduction shall be disclosed: None

(3) If the audit fee is reduced by more than 15% compared with the previous year, the reduction amount of the audit fee should be disclosed: None

v. Replacement of Accountant

1. Regarding the former Accountant:

<table>
<tr><td>Replacement date</td><td colspan="4">On May 10, 2019, the company passed the resolution of the 3rd Board of Directors in 2019.</td></tr>
<tr><td>Reasons and statement of the replacement</td><td colspan="4">Internal adjustment of Accountant’s firm</td></tr>
<tr><td rowspan="3">Note that the appointee or Accountant terminates or does not accept the appointment</td><td colspan="2">Persons concerned
Condition</td><td>Accountant</td><td>Appointer</td></tr>
<tr><td colspan="2">voluntary termination of appointment</td><td colspan="2" rowspan="2">Accountant’s firm writes to our company</td></tr>
<tr><td colspan="2">No further acceptance (continuation) of appointment</td></tr>
<tr><td>Opinions and reasons for the issuance of a review report beyond the unqualified opinions in the recent two years</td><td colspan="4">None</td></tr>
<tr><td rowspan="6">Objection to the issuer</td><td rowspan="4">Yes</td><td>None</td><td colspan="2">Accounting principles or practices</td></tr>
<tr><td>None</td><td colspan="2">Disclosure of financial report</td></tr>
<tr><td>None</td><td colspan="2">Audit scope or steps</td></tr>
<tr><td>None</td><td colspan="2">Others</td></tr>
<tr><td>No</td><td colspan="3"></td></tr>
<tr><td colspan="4">Notes:</td></tr>
<tr><td>Other disclosure (items to be disclosed in items 1 (4) to (7), paragraph 6 of article 10, of the Standard)</td><td colspan="4">None</td></tr>
</table>

2. Regarding the successor Accountant:

Name of accounting firm	Deloitte & Touche
Name of Accountant	Shu-Chin Chiang, Done-Yuin Tseng
Date of Appointment	On May 10, 2019, the resolution of the 3rd Board of the Company was adopted in 2019.
Advisory matters and results on accounting treatment or accounting principles for specific transactions and possible issuance of financial reports prior to appointment	None
Written opinions of successor Accountants on different opinions of former Accountants	None

3. The former Accountant’s reply to item 1 and item 3, paragraph 6 of article 10 of this Standard: None

vi. Audit Independence

In accordance with Article 29 of the Code of Practice on Corporate Governance of Listed Over-the-counter Companies, the independence of our Accountant is assessed as follows and submitted to the 2nd Board of Directors of our Company in 2019:

Independence Assessment Report of Accountant of MERIIDA INDUSTRY CO., LTD

Date of assessment: March 22, 2019

1. It shall be handled in accordance with Article 29 of the Code of Practice for Corporate Governance of Listed Over-the-counter Companies.
2. The assessment items are as follows:
   (1).Whether the Accountant of our company is qualified as an Accountant to carry out accounting business.
   v Yes □ No
   (2).Does the Accountant of the company hold any shares in the Company?
   □ Yes v No
   (3).Does our Accountant borrow money from the Company?
   □ Yes v No
   (4).Whether the Accountant of our Company has a relationship with our Company for joint investment or benefit sharing
   □ Yes v No
   (5).Does the Accountant of the Company serve us two years before the start of the certification or within one year after the termination of the partnership?
   □ Yes v No
   (6).Does the Accountant of our Company work part-time, such as the person in charge, director, supervisor, manager or staff of our Company and receive fixed salaries?
   □ Yes v No
   (7).Does the Accountant of the Company have any affiliation with the management of the Company, such as spouse, relative in-law, relation within second generation, etc.t?
   □ Yes v No
   (8).Does the Accountant of our Company have any management functions related to the decision-making of our Company?
   □ Yes v No
   (9).Whether the Accountant of the Company directly or indirectly implies some relationship or solicits business personnel by means of inducement.
   □ Yes v No
   (10).Whether the Accountant of the Company receives commissions in connection with any business of the Company
   □ Yes v No
   (11).Whether the Company's Accountant has signed with the Company in advance the amount of payment, payment method, etc.
   v Yes □ No
   (12).Is the Accountant’s public fee charged based on the achievement of a discovery or result?
   □ Yes v No
   (13).Does the Accountant of the Company have knowledge of the relevant industries?
   v Yes □ No

(14).Whether the Company's Accountant performs the financial statement audit in accordance with Generally Accepted Auditing Standards and Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants.

v Yes □ No

(15).The Accountant of the Company shall keep confidential the matters entrusted to it without the consent of the Company. No leakage shall be allowed except in accordance with the professional standards or regulations prescribed by law.

v Yes □ No

(16).The Accountant of the Company shall not have any adverse intention to the Company or any third party by virtue of the secrets obtained from its business

□ Yes v No

vii. Chairman, President and the manager who is in charge of the financial or accounting affairs that have worked in accounting firm or its related corporate within the past year: None

viii. The transfer of shareholder's equity and the change of pledge of shares of directors, managers and shareholders whose share-holding ratio exceeds 10 percent in the past year and up to the date of the publication of the Annual Report

1. Change of Shareholding Rights of Directors, Supervisors, Managers and Major Shareholders

Unit: share

Title (Note 1)	Name	2018		As of April 26, 2019	
		Increase (decrease) in the number of shares held	Increase (decrease) in the number of pledged shares	Increase (decrease) in the number of shares held	Increase (decrease) in the number of pledged shares
Chairman and President	Zeng,Song-zhu	0	0	0	0
Director	Zeng,Song-ling	0	0	0	0
Director	Zenglu,Min-hua	300,000	0	0	0
Director	Qiu,Li-qing(Note 3)	0	0	0	0
Director	Dinghong Investment Co., Ltd. Representative: Chen, Jen-Kuei (Note 4) Zheng Wen-xiang Cai,Xue-liang Yuan,Qi-bin Lai,Ru-ding(Note 4)	0	0	0	0
Director	Dingcheng Investment Co., Ltd. Representative: Zeng,Hui-juan	0	0	0	0
Independent director	Chen,Shui-jin	0	0	0	0
Independent director	Chen,Jian-nan	0	0	0	0
Independent director	Li,Zong-ying (Note 5)	0	0	0	0
Independent director	Zhuang, Wen-jing(Note 5)	0	0	0	0
Independent director	Cai,Zeng-teng (Note 5)	0	0	0	0
Supervisor	Qiu,Li-qing(Note 3)	0	0	0	0
Supervisor	Cai ,Wu-ying (Note 3)	(550,000)	0	0	0
Senior Vice-President	Zheng,Wen-xiang	0	0	0	0
Senior Vice-President	Chen,Cheng-bin	0	0	0	0
Senior Vice-President	Cai,Xue-liang	0	0	0	0
Senior Vice-President	Yuan,Qi-bin	0	0	0	0
Senior Vice-President	Lai,Ru-ding	0	0	0	0
Senior Vice-President	Hsu,Shih-Yan	0	0	0	0
Senior Vice-President	Zeng,Jin-cheng	0	0	0	0
Vice-President	Wang,Long-jin	0	0	0	0
Vice-President	Li,Bo-lin	0	0	0	0
Vice-President	Lai,Tong-sha	0	0	0	0
Vice-President	Zhang,Zhengyong	0	0	0	0
Vice-President	Wu,Yu-fan	0	0	0	0
Vice-President	Wu,Min-Fang	0	0	0	0
Vice-President	Zhang,Wen-Jie	0	0	0	0
Vice-President	Tang,Jia-hong	1,000	0	0	0
Vice-President	Zeng,Shang, Yuan	400,000	0	0	0
Vice-President	Cai,Wei-sing	0	0	0	0
Major shareholder	Zeng,Song-zhu	0	0	0	0

Note 1:

(1).Shareholders holding more than 10% of the total shares of the company shall be designated as major shareholders and listed separately.

(2).The following table shall also be filled in if the relative party of equity transfer or equity pledge is an interested party.

(3).On June 26, 2018, the Company's directors were re-elected. Qiu Li-qing. Cai Wu-ying were dismissed as supervisors and Qiu Li-qing was appointed as new directors.

(4).Directors of the Company were re-elected on June 26, 2018. Chen, Jan-Kuei, representative of Dinghong Investment Co., Ltd. was dismissed and : Lai Ru-ding were newly appointed.

(5).On June 26, 2018, the Company elected its new directors, independent director Cai Zeng-teng was dismissed, Li, Cung-Hui and Zhuang Wen-jing was newly appointed.

2. Information on Equity Transfer of Directors, Supervisors, Managers and Major Shareholders:

Name (Note 1)	Reasons for equity transfer (Note 2)	Date of transaction	Trading counterparties	The.relationship.between the.counterpart.of.the.transaction.and.the.Company, directors, supervisors and shareholders holding more than 10% of shares	Number of share	Transaction price
Zenglu, Min-hua	Received	August 6, 2018	Zeng Lin,Siou-Fong	Mother-in-law and daughter-in-law	200,000	0
Zeng,Shang, Yuan	Received	August 6, 2018	Zeng Lin,Siou-Fong	Grandparent and grandchild	200,000	0

Note 1: List the names of directors, supervisors, managers and shareholders who hold more than 10% of the shares.

Note 2: Fill in the acquisition or disposal.

3. Information on Equity Pledge of Directors, Supervisors, Managers and Major Shareholders: None

ix. Relationship among the Top Ten Shareholders:

April 26, 2019 Unit:share

Name (Note 1)	The person's shareholding		The shareholding of the spouse or under aged children		Shareholdings in the name of others		The name and relations of the top ten shareholders whose relations with each other is spouse or the relatives within the second generation (Note 3)		Remarks
	Number of share	Shareholding ratio (%)	Number of share	Shareholding ratio (%)	Number of share	Shareholding ratio (%)	Name	Relation	
Zeng,Song-zhu	48,664,715	16.28	8,347,819	2.79	0	0	Zenglu,Min-hua Zeng,Shang, Yuan	Spouse Father-son	
Cathay Life Insurance	13,688,414	4.58	0	0	0	0	None	None	
Chunghwa Post Co. , Ltd.	8,708,100	2.91	0	0	0	0	None	None	
Zenglu,Min-hua	8,347,819	2.79	48,664,715	16.28	0	0	Zeng,Song-zhu Zeng, Shang, Yuan	Spouse Mother-son	
Zeng, Shang, Yuan	7,546,000	2.52	300,000	0.10	0	0	Zeng,Song-zhu Zenglu,Min-hua	Father-son Mother-son	
Dingcheng Investment Co., Ltd. Chairman: Zeng Song-ling	7,314,925	2.45	0	0	0	0	None	None	
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Stichting Depositary APG Emerging Markets Equity Pool	6,882,000	2.30	0	0	0	0	None	None	
Zeng ,Song-ling	5,692,934	1.90	0	0	0	0	None	None	
Qiu, Li-qing	5,412,000	1.81	10,754	0	0	0	None	None	
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Bao-Yuan International Selected Fund - Account of Emerging Asia Investment.	5,327,000	1.78	0	0	0	0	None	None	

Note 1: all the top ten shareholders shall be listed, and the names of the legal shareholders and their representatives shall be listed separately if they are institutional shareholders.

Note 2: the calculation of shareholding ratio refers to the calculation of shareholding ratio in the name of oneself, spouse, minor child or other person.

Note 3: the shareholders listed above, including legal persons and natural persons, shall disclose their relationship with each other in accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers.

x.Shares held by directors, supervisors, managers and enterprises directly or indirectly controlled by the Company in the same reinvested enterprise

March 31, 2019 Unit: share; %

Affiliated Companies (Note)	Investment of the Company		Investments directly or indirectly controlled by directors, supervisors and managers		Comprehensive investment	
	Number of share	Shareholding ratio	Number of share	Shareholding ratio	Number of share	Shareholding ratio
Merida Bicycles Ltd..	481,763	81.31	0	0%	481,763	81.31
Stians Sport AS.	34,000	34.00	0	0%	34,000	34.00
Merida International (B.V.I) Ltd	42,500,000	100.00	0	0%	42,500,000	100.00
Merida Benelux B.V	766,126	60.00	0	0%	766,126	60.00
Merida & Centurion Germany GmbH	Unissued shares	51.00	0	0%	Unissued shares	51.00
Merida Polska Sp.z.o.o	100	74.07	0	0%	100	74.07
Specialized Bicycle Components, Inc.	3,409,982	35.39	0	0%	3,409,982	35.39
Merida Slovakia s.r.o	Unissued shares	30.00	0	0%	Unissued shares	30.00
Merida Czech s.r.o	Unissued shares	45.00	0	0%	Unissued shares	45.00
SAIL & SURF Produktion-und Handelsgesellschaft m.b.H	Unissued shares	40.00	0	0%	Unissued shares	40.00
Merida Bikes SWE, S.A.	448	36.36	0	0%	448	36.36
Miyata Cycle Co., Ltd.	900	45.00	0	0%	900	45.00
Merida Italy S.r.l	Unissued shares	27.27	0	0%	Unissued shares	27.27
Merida Korea Inc.	76,560	40.00	0	0%	76,560	40.00
WideDoctor (International) Enterprise Co., Ltd.	690,000	25.56	0	0%	690,000	25.56

Note: Investment accounted for using equity-method.

IV. Capital Overview

i. Capital and Shares、Bonds、Global Depository Receipts、Employee Stock Options、Status of New Shares Issuance in Connection with Mergers and Acquisitions

1. (1). Source of Capital Stock

Unit: NTD$; share

Month /Year	Issuance price	Authorized capital stock		Paid-in capital stock		Remarks		
		Number of stocks	Amount	Number of stock	Amount	Source of capital stock	Using property other than cash as the equity contribution	Others
Sept./ 2014	10	350,000,000	3,500,000,000	298,983,800	2,989,838,000	Capitalization of retained earnings NTD$ $142,373,240 Effective date of FSC: July,16, 2014 File No.: Chin-Kuan-Cheng-Fa-Tzu No. 1030027086, July 16, 2015; Effective date of Ministry of Economics: September 3, 2014 File No.: Ching-Shou-Shang-Tzu No. 10301182700, September 3, 2014;	None	None

Note 1: information for the year ending on the date of publication of the annual report shall be provided.
Note 2: the date and document number of effectiveness (approval) shall be indicated in the capital increase.
Note 3: where shares are issued for less than par value, they shall be marked in a prominent manner.
Note 4: where the share proceeds are offset by monetary claims or technologies, the types and amounts of the offset shall be stated.
Note 5: private placement shall be marked in a prominent manner.

(2) Types of stock issued:.

Unit: share

Stock type	Authorized stock			Remarks
	Outstanding stock	Unissued stock	Total share	
Common stock	298,983,800	51,016,200	350,000,000	Listing

Note: Please indicate whether the stock belongs to listed or OTC companies (if it is restricted to listed or OTC traders, it should be noted).

2. Status of Shareholders:

Date: as of April 26, 2019

Status / Amount	Governmental agencies	Financial institutions	Other legal persons	Independents	Foreign institutions and outsiders	Total amount
Number of person	5	21	316	21,723	328	22,393
Number of shares	7,519,450	34,374,514	21,166,306	116,505,872	119,417,658	298,983,800
Shareholding ratio	2.52%	11.50%	7.08%	38.96%	39.94%	100.00%

3. Shareholding Distribution Status: (common stock)

Date: as of April 26, 2019

Shareholding grading	Number of shareholders	Number of shares	Shareholding ratio (%)
1 to 999	17,369	1,251,026	0.42%
1,000 to 5,000	3,923	7,351,052	2.46%
5,001 to 10,000	420	3,052,315	1.02%
10,001 to 15,000	146	1,834,395	0.61%
15,001 to 20,000	61	1,085,806	0.36%
20,001 to 30,000	86	2,144,106	0.72%
30,001 to 40,000	64	2,528,665	0.85%
40,001 to 50,000	71	5,376,343	1.79%
50,001 to 100,000	83	11,916,977	3.98%
100,001 to 200,000	57	16,641,622	5.57%
200,001 to 400,000	33	16,359,548	5.47%
400,001 to 600,000	11	7,529,142	2.52%
600,001 to 800,000	16	14,490,880	4.85%
800,001 to 1,000,000	53	207,421,923	69.38%
Total amount	22,393	298,983,800	100.00%

4. List of Major Shareholders:

Date: as of April 26, 2019

Stocks / Name of major shareholders	Number of shares	Shareholding ratio (%)
Zeng,Song-zhu	48,664,715	16.28%

5. Market Price, Net Worth, Earnings, and Dividends per Share in the Last Two Years:

Unit: NTD$

Items \ Year			2017	2018	As of March 31, 2019 (Note 8)
Market price per share (Note 1)	Highest		172.00	167.50	181.50
	Lowest		116.00	104.00	137.00
	Average		142.99	134.71	159.29
Net worth per share (Note 2)	Before distribution		38.75	42.65	44.46
	After distribution		36.75	Earnings Distribution to be Resolved by the Shareholders' Meeting in 2019	-
Earnings per share (Note 3)	Weighted Average Stock Number		298,983,800	298,983,800	298,983,800
	Earning per share	Before retrospective adjustment	2.67	5.72	1.60
		After retrospective adjustment	-	-	-
Dividend per share	Cash dividend	Special stock	-	-	-
		Common stock	NTD$ 2.0per share	Earnings Distribution to be Resolved by the Shareholders' Meeting in 2019	-
	Free allotment of share	Surplus allocation of share	-	-	-
		Capital reserve allocation of share	-	-	-
	Cumulative unpaid special dividend (NTD$1,000), (Note 4)		-	-	-
Analysis of return on investment	Capital and profit ratio (Note 5)		55.03	23.55	-
	Cash dividend yield (Note 6)		73.46	Earnings Distribution to be Resolved by the Shareholders' Meeting in 2019	-
	Cash Dividend Reproductive Rate (Note 7)		1.36%	Earnings Distribution to be Resolved by the Shareholders' Meeting in 2019	-

* If there is a transfer of surplus or capital reserve into equity allocation, the market price and cash dividend adjusted retrospectively according to the number of shares issued shall be disclosed.

Note 1:List the highest and lowest market prices of common stock in each year, and calculate the average market prices of each year according to the turnover value and volume of each year.

Note 2:Please fill in the column by referring to the number of shares issued at the end of the year and the distribution according to the resolution of the shareholders' meeting of the following year.

Note 3:If there is a need for retrospective adjustment due to the situation of free allotment, the earnings per share before and after adjustment shall be shown.

Note 4:Where conditions for the issuance of equity securities stipulate that dividends accrued in the current year are accrued in the surplus year, the accrued dividends accrued in the current year shall be disclosed separately.

Note 5:Capital and profit ratio=Average closing price/earnings per share for the current year.

Note 6:Cash dividend yield＝average closing price per share/cash dividend per share for the current year..

Note 7:Cash Dividend Reproductive Rate= Cash dividend per share/average closing price per share for the current year.

Note 8:The net value of each share and earnings per share shall be provided with the data checked by the Accountant in the latest quarter up to the date of publication of the annual report; the remaining columns shall be filled in with the data of the year up to the date of publication of the annual report..

6. Dividend Policy and Implementation Status

(1). Dividends policy:

Regarding net profit after the annual final accounts, in addition to paying profit-seeking enterprise income tax according to the laws and making up loss of previous years, 10% from the balance shall be allocated as legal reserve. However, when legal reserve has reached the Company's paid-in capital, it will not be allocated anymore and we shall allocate or reverse special reserve according to the laws. If there is still surplus, add cumulative undistributed earnings in previous years and make them distributable earnings. Board of directors' drafts earning distribution motion and submits to shareholders' meeting to resolve for apportioning shareholders dividends and bonus.

Shareholders' total dividends shall be 10% to 80% of distributable earnings in that year. Wherein, cash dividends shall not be less than 10% of shareholders' total dividends.

(2). Proposed Dividend Payment by the Shareholders' Meeting:

The proposal for distribution of 2018 profits was proposed from 2018 total unappropriated earnings.Total number of outstanding common shares was 298,983,800. Cash dividends to shareholders- NTD$3.5 per share, the Company plans to distribute dividends of NTD$1,046,443,300. Each common shareholder will be entitled to receive the cash dividends in dollar amount. The fractional parts would be turned to MERIDA Employee Welfare Committee. Subject to the approval of the General Shareholders' Meeting, the Board of Directors is authorized to determine the ex-dividend date and the distribution date for the cash dividends.

7. Impact of the proposed stock dividend distribution by the shareholders' meeting on business performance and earnings per share:

It just proposed cash dividends at this Shareholders' Meeting and the Company does not need to prepare 2019 financial forecasts, so it is not applicable.

8. employees' compensation and directors & supervisors' compensation:

(1). Percentage or Range of Employees' compensation and Directors & Supervisors' compensation under the Articles of Incorporation:

If the Company has earned annual profit, no less than 5% shall be allocated for remuneration of employees and no more than 5% for remuneration of directors. However, if the company still has cumulative loss, make-up amount shall be retained in advance.

Employees' remuneration may be given by shares or cash and directors' remuneration shall be given by cash. It shall be done by the board of directors with more than two thirds of directors' attendance and the consent resolution by over half of attended directors and shall be reported to shareholders' meeting.

The objects granted with employee remuneration may include employees of subsidiary companies that comply with certain conditions, setting of which is decided by board of directors.

(2). The basis of the estimate of employees' compensation and directors & supervisors' compensation, the basis of calculating number of shares where stock bonuses are paid, as well as accounting treatment in case of deviation between the amount of actual payment and the estimate:

1) The basis of the estimate of employees' compensation and directors & supervisors' compensation:

According to Article 32 in the Articles of Incorporation of Merida and passed a resolution at the 2nd board meeting in 2019.In 2018, Merida's income before tax was NTD$ 2,792,173,586 before deducting the 2018 employees' compensation and directors & supervisors' compensation. The employees' compensation was distrubuted by 6% of the above amount, totaling NTD$ 167,530,415, and the directors & supervisors' compensation was distributed by 2.6% of the above amount, totaling

NTD$ 72,596,513, which has been distrubuted in full in cash.

2)The basis of calculating number of shares where Stock compensation are Paid:

2018 employees' compensation has been estimated in full in cash, so it is not applicable.

3) Accounting treatment in case of deviation between the amount of actual payment and the estimate:

After the fiscal year end, if the compensation amount changes materially prior to the official release of the annual independent financial report approved by the Board of Director, the changes shall be adjusted as part of the previous fiscal year. Else if the remuneration amount changes materially after the official release of the annual independent financial report, the changes shall be adjusted as part of the current fiscal year.

(3). 2018 Compensation approved in the Board of Directors Meeting:

1).Employees' compensation and directors'& supervisors' compensation in the form of cash or stock:

A. Employees' compensation:NTD$ 167,530,415.
B. Directors & supervisors' compensation:NTD$ 72,596,513.
C. Distrubuted in full in cash..

2). The amount of any employee compensation distributed in stocks; and the size of this amount as a percentage of the net income stated in the independent financial reports or Independent financial reports for the current period; and the size of this amount as a percentage of the total employee compensation: 2018 employees' compensation approved in the Board of Directors Meeting has been distrubuted in full in cash, so it is not applicable.

(4).2017 actual distribution of employees' and directors'& supervisors' compensation (including number of shares, monetary amount, and stock price):

1).Employees' compensation:NTD$ 88,492,474, distrubuted in full in cash.

2).Directors & supervisors' compensation:NTD$ 28,760,054.

3).The actual amounts of employees' compensation and directors'& supervisors' compensation were paid the same with the amounts recognized in the financial statements.

9. The Company's Re-purchase of Shares of the Company: None.

10. Handling of Corporate Bonds: None.

11. Handling of special stock: None.

12. Handling of GDR: None.

13: Handling of Employee Stock Option Certificates: None.

14. Handling of Acquisition or Assignment of New Shares: None.

ii. Financing Plans and Implementation

As of March 31, 2019, the implementation of the previous issuance or private placement of securities has not been completed or completed in the last three years, and the planned benefits have not yet been shown: None.

V. Operational Highlights

i. Business Activities

1. Business Scope:

(1). Business Engaged:

1) Manufacturing, assembly, sale and external processing of bicycles and their parts.
2) Manufacturing, assembly and sale of machine bicycles and their parts.
3) Manufacturing, assembly and sale of e-bikes and their parts.
4) The output, input and sale of the speedometer.
5) Manufacture, assembly and sale of fitness bikes and their parts.
6) Import and export of related products and equipment.
7) Entrusting the construction company to build the rental and sale business of the national residential and commercial buildings.
8) C805050 Industrial Plastic Products Manufacturing Industry.
9) CC01080 Electronic Parts and Components Manufacturing Industry.
10) CC01050 Manufacturing Industry of Data Storage and Processing Equipment.
11) CA01990 Other basic industries of non-ferrous metals (zinc, aluminium, magnesium, copper, titanium alloy smelting and forging, die casting, extrusion, extension)
12) CA02990 Other metal products manufacturing industries (zinc, aluminium, magnesium, copper, titanium alloy hammer and forging, die casting, extrusion, stretching).
13) ZZ99999 Except for licensing business, business that is not prohibited or restricted by law may be operated.

(2). Main products and business proportion:

Items	Rate (%)
Complete bikes	95.71%
Bicycle frame and components	4.29%

(3). New products planned to be developed:

1) “Reacto Disc Evolution”

“Reacto Disc Evolution” is a continuation of Reacto’s past achievements. With a strong track record of outstanding sales performance, it is a professional racing road vehicle! Using high rigidity and lightweight carbon fiber composite material, the frame can be increased by 8% due to the use of five-way, so that the rider’s trampling force can be more effectively transmitted In addition, a new way of wiring was developed and integrated, so that the originally chaotic control cables could be incorporated into the vehicle, effectively reducing the wind resistance coefficient and turbulence, thereby reducing energy loss and improving the stability of the vehicle, making the appearance of the vehicle extremely simple and refined. With U.C.I. allowing Disc braking systems for road vehicles to participate in international events, the Reacto Disc Evolution will not be absent from this important event of change. Carefully designed to enhance the strength of the fixed seat of the disc brake and overcome the influence of high temperature when braking, so as to effectively improve the braking and control ability of the vehicle. More subtle and then evolutionary design changes are aimed at renewing “Reacto Disc Evolution” to stay ahead of the competition!

2) “e One-sixty Inner Tube Evolution”

"e One-sixty Inner Tube Evolution" is the continuation of the previous best-selling and most award - winning total shock absorbing-electric mountain bike! The carbon fiber frame uses tubular battery pack. Therefore, it is necessary to overcome the higher strength requirements of e-bikes, which are different from ordinary bikes, and the complex fixing mode and strict fitting requirements are all tests to our R & D ability and the ability of personnel's assembly process. The integrated rear fork design is matched with high strength forged rear iron, so that the vehicle speed sensor and related wire can be hidden and not exposed, and the appearance of the vehicle is more concise and beautiful.Therefore, "compact vehicle appearance, refined technology aesthetics" is the spirit of Merida e-bike designs! The e-bike is no longer the camel with twin humps but the wild horse carrying the riders to compete in the mountains!

2. Industry Overview:

(1). Relation among up-, mid- and downstream:

1).Upstream/raw materials: iron, aluminum and carbon fiber yarn, etc.

2).Midstream/ including structural systems, control systems, shock absorbers, braking systems, etc.: frame, front fork, handlebar, hubs, tire, brake, transmission and other components.

3).Downstream/ complete bike: assembly, sales of bike & components as well as after-sales services for consumers.

(2). Competition of products:

1). In 2018, the overall export scale of Taiwan's bicycle industry has returned to positive growth, supported by more than 50% annual growth of advanced e-bikes. Moreover, the average unit price has increased significantly, which shows that the export of high-priced cars is more concentrated, and the market of high-grade bicycles, mainly importing countries such as Europe and the United States, is relatively stable. However, the rise of bike-sharing in the Chinese market in the past three years has caused a huge impact on the overall bicycle industry chain, which not only substantially replaced the consumption market of traditional bicycles, but also caused hesitation among middle and high- class bicycle consumers, temporarily depressing their consumption. Although the momentum of the shared operation has decreased significantly, the overall market situation is only hovering at the bottom of the valley, waiting for the market rebound!

2). On the other hand, despite the economic downturn in China's bicycle market in 2018, the sales of advanced bicycles in Europe and the United States held steady and the sales of e-bike still grew significantly. According to the statistics of TBA, the total export volume of Taiwan bicycle industry in 2018 was about 2.21 million bicycles (excluding e-bikes), and the export volume was about US$ 1.477 billion,the annual export volume and quantities of the finished bicycles decreased by 6.72% and increased by 11.36%. In addition, the industry exported more than 280,000 electric vehicles in 2018, with an export value of nearly US$380 million, with an annual increase of 56.11% and 51.86% respectively. The continual and strong demand of Europe and US's high-end e-bike markets for the high-grade e-bikes will be the main momentum for the growth of drive industrial export in recent years!

3. Research and Development:

(1). R&D expenditure invested in the latest year and up to the publication date of the annual report:

Unit: NTD$

2018	As of March 31, 2019
59,858,187	15,656,389

1)Technologies or products successfully developed:

(1) "Touring Road Bicycle Silex CF: was awarded Taiwan Excellence Silver Awards in the 26th (2018) Taiwan Excellence.

(2) "Reacto Team Disc-E": was awarded Taiwan Excellence Silver Awards in the 26th (2018) Taiwan Excellence.

(3) "Mountain bike ONE-Twenty":was awarded the Gold Prize in the 7th(TAIPEI

CYCLE d&i awards 2018).

(4) “120 Full suspension mountain bike ONE-Twenty”: was awarded the 27th(2019) Taiwan Excellent Products and nominated in the selection of Taiwan Excellence Gold and Silver Awards in the 27th(2019) Taiwan Excellence.

(5) “ Time Warp TT” was awarded the 27th(2019) Taiwan Excellent Products and nominated in the selection of Taiwan Excellence Gold and Silver Awards in the 27th(2019)Taiwan Excellence.

4. Long-term and Short-term Development Plan:

(1). Short-term plan:

China’s bicycle market is expected to remain in a period of adjustment in 2019, while Europe, the United States and other markets have a steady demand for medium and high-end bicycles, and the demand for electric bicycles in its own brand channel is still maintaining a substantial growth.In response to the increase of orders in the new year, the Group adjusts manpower and expands supply sources and internal and external capacity dispatch and draw up countermeasures.

(2). Medium and Long-term Development Plan:

Evaluate the demand scale and growth trend of medium and high-class bicycles in the global bicycle market in the next 5 to 10 years, including high-grade road sports cars, mountain bikes, urban recreational vehicles and e-bikes. The broad brand of the Group maintains the corresponding market demand for medium and high-end bicycles, and timely adjusts the development, manufacturing and sales services of the car system. At the same time, increase the investment layout of brand and channel in emerging markets, so as to maintain the market share in the global high-end bicycle market, and the steady growth of profits.

ii.Market and Sales Overview

1. Market Analysis:

(1). Information of sales in different regions:

Regions	Ratio (%)
Europe	51.40%
America	30.34%
Others	18.26%

(2). Market share:

According to the statistics of TBA, the total export volume of Taiwan bicycle industry in 2018 was about 2.21 million bicycles (excluding e-bikes), and the export volume was about US$ 1.477 billion. Our export volume and export value account for 38% and 36% of the total export volume of the industry, respectively. In addition, the industry exported more than 280,000 electric vehicles in 2018, with an export value of nearly US$ 0.38 billion, with an annual increase of 56.11% and 51.86%, respectively. In 2018, the Company exported more than 143,800 high-end e-bikes to Europe, the United States and other major markets, accounting for more than 51% of the industry, making it the primary contributor to the growth of industrial export of e-bikes. And the annual export amount of e-bikes has accounted for more than 25% of the Group's annual revenue.

(3). Future supply and demand, growth and competitive niches:

1). Since the sales of recreational bicycles are susceptible to weather, the sales price is related to the purchasing power of consumers and the degree of market maturity (saturation). Mature markets (such as Europe and the United States) provide the annual growth momentum of about 0 to 5% for high consumption, price and volume respectively. Emerging markets (such as mainland China, Latin America, Asia, Africa, New Zealand, Australia and eastern Europe, etc.) continue to have relatively large growth in the overall economy and national income, improve living standards and purchasing power. In terms of the demand for medium and high-end bicycles and e-bikes, these countries started late and the market share is low. It is expected that in the next few years under reasonable supply and demand conditions, there is still room for price and volume growth.

2). Under the influence of market demand growth and high competition in industry, the Company adheres to its own brand and products in broad sense, pays attention to the positioning of the global middle and high-grade bicycle market, keeps developing and innovating constantly, maintains a good product life cycle, with the best product strength and sports marketing endorsement, promotes brand and product image, makes sure to be one of the main suppliers of high-end bicycles and high-end e-bikes in the global market, as well as the first brand of high-end (variable speed) bicycles in the mainland market.

(4). Advantages, disadvantages and countermeasures of future development:

1).Advantages and countermeasures: Due to long-term adherence to the brand production and marketing policy focusing on the global middle and high-grade bicycle market, from product development, production, distribution and sales channels, the global market has a clear positioning, and its multi-brands in the major markets are supported and affirmed by consumers, and enjoy a certain degree of popularity and market share; Based on this good and stable foundation, we will strive to create demand, guide the innovation of popular product research and development, as well as the improvement of production management and technology, and continue to expand brand marketing services, production capacity and channel layout in order to pursue sustainable growth.

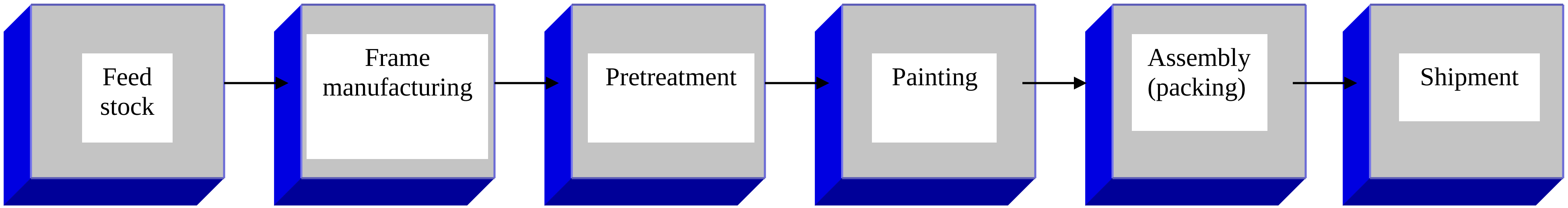
2).Disadvantages and countermeasures: global weather, political, economic and environmental uncertainties, as well as unfriendly intra-industry competition (such as counterfeiting, price destruction) and other factors, imply the threat of product and market marketing, while the volatility of exchange rates of major international currencies (such as the US dollar against the Japanese currency, the Taiwanese dollar, etc.) also poses uncertain risks and impacts on costs and returns. When identifying the unfavorable factors affecting production, marketing and profitability, the operating departments of the Company (Group) should integrate the resources of the Group’s factories and the partners of the strategic alliances’ brands and channels, actively anticipate and evade them, so as to effectively utilize resources, opportunities, transform risks and threats, and create maximum operating benefits.

2. Production Procedures of Main Products:

(1). Major products: bicycle

(2). Use: for transportation, relaxation and sports

(3). The production and manufacturing processes are as follows:



3. Supply of major raw materials:

Major raw materials	Source of supply	Supply condition
Transmission assembly	Foreign and domestic manufacturers	Good
Flywheel set	Foreign and domestic manufacturers	Good
Front fork components	Foreign and domestic manufacturers	Good
Chainweels and crank arms	Foreign and domestic manufacturers	Good
Motor of e-bikes	Foreign and domestic manufacturers	Good
Carbon fibre frame components	Foreign and domestic manufacturers	Good
Brake components	Foreign and domestic manufacturers	Good
Hubs	Foreign and domestic manufacturers	Good
Tire material	Foreign and domestic manufacturers	Good
Shock absorber components	Foreign and domestic manufacturers	Good

4. Major Suppliers and Clients for More Than 10% in the Last Two Years:

Major Suppliers in the Last Two Calendar Years

Unit: NTD$1,000

Items	2017				2018				As of the previous quarter of 2019 (Note 2)			
	Name	Amount	Percentage of net purchase for the whole year (%)	Relation with issuer	Name	Amount	Percentage of net purchase for the whole year (%)	Relation with issuer	Name	Amount	Percentage of net purchase for the whole year (%)	Relation with issuer
1	M3001	3,444,601	19.65	Non-interested party	M3001	4,088,173	19.45	Non-interested party	M3001	975,781	21.88	Non-interested party
2	Others	14,088,540	80.35	-	Others	16,932,621	80.55	-	Others	3,483,110	78.12	-
	Net purchase amount	17,533,141	100.00		Net purchase amount	21,020,794	100.00		Net purchase amount	4,458,891	100.00	

Note 1: List the names of suppliers and the amount and proportion of their purchases over 10% of the total purchases in the last two years. However, if the contract stipulates that the name of the supplier or the object of the transaction is an Independent and non-interested party, it may be coded.
Note 2: Up to the date of publication of the annual report, companies listed or whose stocks have been bought and sold in the securities firm's business premises shall disclose the latest financial information which has been verified by the Accountant.

Major Clients in the Last Two Calendar Years

Unit: NTD$1,000

Items	2017				2018				As of the previous quarter of 2019 (Note 2)			
	Name	Amount	Percentage of annual net sales (%)	Relation with issuer	Name	Amount	Percentage of annual net sales (%)	Relation with issuer	Name	Amount	Percentage of annual net sales (%)	Relation with issuer
1	0301	14,519,933	64.83	Invested company valued at equity	0301	16,541,284	63.98	Investment Accounted for Using Equity Method	0301	3,261,459	58.50	Investment Accounted for Using Equity Method
2	Others	7,876,241	35.17	-	Others	9,311,658	36.02	-	Others	2,313,274	41.50	-
	Net sales	22,396,174	100.00		Net sales	25,852,942	100.00		Net sales	5,574,733	100.00	

Note 1: List the names of suppliers and the amount and proportion of their purchases over 10% of the total purchases in the last two years. However, if the contract stipulates that the name of the supplier or the object of the transaction is an Independent and non-interested party, it may be coded.
Note 2: Up to the date of publication of the annual report, companies listed or whose stocks have been bought and sold in the securities firm's business premises shall disclose the latest financial information which has been verified by the Accountant.

5. Production in the Last Two Years:

Unit: set/ NTD$1,000

Year / Major products	2017			2018		
	Capacity	Production volume	Output	Capacity	Production volume	Output
Bicycle	1,960,000	1,140,713	14,211,244	1,890,000	967,127	14,986,596
E-bike		94,948	3,745,233		133,058	5,106,726
Frame and components	-	-	983,321	-	-	1,094,872
Total amount	1,960,000	1,235,661	18,939,799	1,890,000	1,100,185	21,188,194

Note 1:Capacity refers to the amount of production that a company can produce under normal operation using existing production equipment after measuring factors such as necessary shutdown and holidays.
Note 2: If the production of each product is substitutable, the production capacity may be calculated together with notes.

6. Shipments and Sales in the Last Two Years

Unit: set/NTD$1,000

Sales value / Year / Major commodities (or sectors)	2017				2018			
	Domestic sales		Export sales		Domestic sales		Export sales	
	Production volume	Output	Production volume	Output	Production volume	Output	Production volume	Output
Bicycle	34,191	308,692	1,114,254	16,468,726	27,509	276,277	980,202	17,750,359
E-bikes	0	0	94,181	3,979,880	308	16,967	144,491	6,235,346
Frame and components	-	42,009	-	1,685,778	-	26,244	-	1,664,737
Service revenue	-	4,016	-	-	-	3,369	-	-
Return and discount of sales	-	(6,647)	-	(86,280)	-	(4,775)	-	(115,582)
Total amount	34,191	348,070	1,208,435	22,048,104	27,817	318,082	1,124,693	25,534,860

iii.Human Resources

Year		2017	2018	As of April 30, 2019
Number of employee	Supervisors	147	154	151
	Staff	565	551	538
	Employee	1,733	1,650	1,659
	Total	2,445	2,355	2,348
Average years of service		6.46	7.91	8.06
Average age		36	36	36
Distribution of academic qualifications %	PhD	0	0	0
	Master	3%	3%	3%
	Junior college	19%	20%	21%
	Senior high school	42%	42%	42%
	Below senior high school	36%	35%	34%

iv. Environmental Protection Expenditure

1. Damage (including compensation) and total amount of disposal due to environmental pollution in the latest year and up to the date of publication of the annual report: None.

2. Future Countermeasures and Possible Expenditures:

(1). The Company aims at environmental protection, zero pollution and workplace safety, zero disaster. It replaces high pollution with low pollution for raw materials in each process, complies with environmental laws and regulations, and applies for environmental protection permits to ensure compliance with environmental emission standards and reduce environmental pollution. Improve machinery, equipment and environmental safety to ensure labor safety and prevent injury and illness.

(2). Environmental protection and health enforcement measures are as follows:

1) The new staff carries out education and training on environmental protection, safety and health, to promote the safety concept and environmental protection and clean production awareness.

2) The new wastewater treatment plant is scheduled to be completed by the end of 2019. Continuous pursuit of high efficiency of wastewater treatment and improvement of the quality of effluent water, the establishment of source control raw material records, application system for process discharge, the use of waste liquid as adjusting agent for wastewater treatment plant, and the reduction of wastewater reagent use.

3) Set up special areas for resource recovery, improve waste storage sites, implement garbage classification, and reduce waste production.

4) Regular implementation of environmental protection testing, industrial and safety monitoring, annual regular outsourcing testing of water quality (discharge water, drinking water), waste gas, monitoring of operating area noise, dust and organic solvents.

5) The Occupational Safety and Health Management Committee shall be convened regularly every three months to review the automatic inspection and safety and health audit, the preventive measures against the hazards of machinery, equipment or raw materials, materials, the occupational disaster investigation report, health management, occupational disease prevention and health promotion and other related operation.

6) Specialized departments of environmental protection and occupational safety and health:
According to the industry scale, there are specialized departments and relevant occupational safety and health management personnel in the Occupational Safety and Health Office, which is directly under the President and responsible for environmental protection and occupational safety and health. In addition, professional nurses and on-site service doctors promote staff health management and health promotion, and set up nursing rooms in the factory to improve friendly workplace.

7) In response to environmental protection, energy conservation and carbon reduction, a number of energy conservation policies
All newly added and replaced lamps are replaced with energy-saving LED lamps.
Frequency conversion and energy saving is the priority when purchasing air conditioners, and the mechanism to control the indoor temperature up to 28℃ when using air conditioners.
The newly added air compressor is converted to variable frequency energy saving type, and the operators check the leakage of the equipment every day.
Change the dry dust collector to wet dust collector, reduce particulate emissions.

8) Greenhouse Gas Inventory: The Company is not an industry in which the EPA announces annual greenhouse gas emissions of 25,000 metric tons of carbon dioxide equivalent.

3.Energy Saving and Environmental Protection Policies:

(1). Bicycle parking is set up in the factory to encourage employees to commute to work by bicycle instead of motorcycle.

(2). Bicycle products are certified by carbon footprint, and carbon labels are used to convey the information of the product's carbon footprint to consumers, providing reference for purchase, encouraging changes in consumption behavior and lifestyle, and making joint efforts to reduce vehicle emissions.

(3). Electronic production process instructions encourage staff to print less, use double-sided or multi-page printing function, set up paper recycling bins beside photocopiers to reduce the impact of paper consumption on trees and ecology.

(4). For many years in a row, we have organized large-scale bicycle riding activities to promote the most energy saving, carbon reduction and environmental protection bicycle activities, and encouraged the use of bicycles as a means of short-range transportation.

(5). In combination with the concept of environmental protection, we have been cultivating children' interest and hobby in bicycles since childhood. We have organized a bicycle DIY summer camp to provide them with more professional bicycle knowledge.

(6). The "Air Quality Purification Zone" in Changhua County covers an area of 2.62 hectares. It maintains, manages, plants and cleans the whole environment. It absorbs polluted gases through the physiological characteristics of plants, reduces dust and suspended particulates, purifies air quality, and fulfills corporate social responsibilities and obligations.

v. Labor Relations

1. Employee Welfare Measures, Training, Retirement System, Labour Agreements, Measures and Implementation of Employee Rights and Interests:

(1). Employee welfare measures

1) Year-end bonus will be paid every year before Spring Festival.The basic number of days is 60 days, and the actual number of days and amount paid depends on the operating performance of the current year.
2) Bonus will be paid before Dragon Boat Festival and Mid-Autumn festival every year. The actual amount will be determined by the operating performance of the year.
3) Rewards will be paid if sales volume and sales value reach record on a monthly and annual basis.
4) The Company shall allocate no less than 5% of its annual profit to its employees.
5) Set up Employee Welfare Committee, organize various staff activities and travel.

(2). Further education and training:

1) In line with the Company's development goals and lifelong learning goals of employees, the Company has formulated educational training management regulations and in-service training management methods to cultivate talents at all levels, inspire employees' knowledge and skills, and improve work efficiency.
2) The Company's staff education and training include: new staff training, in-plant education and training, out-plant education and training.
3) The in-service training of our employees includes: assigning study at public expense and applying for self-study.

(3). Retirement system and implementation:

1) The Company's pension system, which is governed by the "Labor Pension Act", is a government defined pension plan, in which 6% of the employee's monthly salary is allocated to the Independent account of the labor insurance bureau.
2) The Company's "Labor Standards Act" pension system is to determine the benefits and retirement plan and the payment of employees' pension based on the service life and the average salary 6 months prior to the approved retirement date. The Company shall allocate 6% of the total monthly salary to the employee retirement fund, which shall be deposited in a special account of the Bank of Taiwan in the name of the Supervisory Committee on Retirement Reserves.The Labor Fund Utilization Bureau of the Ministry of Labor invests the planned assets in domestic (foreign) equity securities, debt securities and bank deposits by means of self-use and entrusted operation. The minimum income allocated to the annual final accounts of the Labor Retirement Fund shall not be less than that calculated by the local bank's two-year

fixed deposit interest rate, however, it shall be in accordance with the provisions of the methods for the custody and utilization of the income and expenditure of the Labor Retirement Fund.

3) The Company shall, before the end of each year, estimate the retirement amount of the employees under the retirement conditions specified in article 53 or item 1 of paragraph 1 of article 54 of the Labor Standards Act within the next year, and fully allocate the pension by the end of the following march.

4) In addition, the Company shall, in accordance with the regulations on employee retirement, set aside 4% of the salary of appointed managers for the pension of employees each month.

5) The reinvestment business Merida Sentina Company, Merida (Netherlands) Company and Merida (Poland) Company have not formulated a retirement policy, but only pay annuities and various insurance according to local decrees.Merida (China) Company, Merida (Shandong) Company and Merida (Jiangsu) Company pay basic pension insurance premiums for their local employees on a monthly basis according to the regulations of the local government, and hand them to the relevant departments of the local government for overall arrangement and payment of retirement pensions for retired employees, all of which are defined retirement schemes.

Merida (British Virgin Islands) Company, Merida (Hong Kong) Company and Merida (Samoa) Company are holding companies, which do not require a retirement scheme and system.

(4). Other important labor-management agreements: None.

(5). Measures to safeguard employees' rights and interests:

1) Establish corporate Labor Union to safeguard the rights and interests of employees.

2) Conduct labor-management conferences in accordance with Labor Standards Act to reinforce the relations between employees and employers.

3) In accordance with the Labor Standard Act, Employment Service Act, Gender Equality in Work Act, Sexual Harassment Prevention Act and related decrees, the Company's "Rules of Work" are formulated and submitted to the competent authorities for approval and implementation, so as to implement the guidelines for the rights and obligations of both employers and employees. .Formulate relevant management regulations, such as "Measures for Labor Retirement Management", "Measures for Staff Retirement Management", "Measures for Prevention and Treatment of Sexual Harassment in the Workplace", "Measures for Complaints and Punishment Management" to safeguard employees' rights and interests.

2. Losses due to labour disputes in recent years and up to the date of publication of annual reports: None

3. Current and potential future losses from labor disputes: None.

vi. Important Contracts:

Nature of contracts	Parties concered	Starting and ending date of contract	Main contents	Restriction terms
Fleet sponsorship contract	BMTCT Bahrain WorldTour Cycling Team W.L.L.	2017.01.01 | 2019.12.31	Sponsorship of professional cycling teams Bahrain-Merida Pro Cycling Team	None

VI. Financial Information

i. Five-Year Condensed Balance Sheet and Condensed Income Statement

1. (1) Consolidated Condensed Balance Sheet– Based on IFRS

Unit: NTD$1,000

Items / Year		Financial Information over the Last Five Years (Note 1) 2014	2015	2016	2017	2018	Financial Information Checked by Accountants as of March 31, 2019 (Note 3)
Current assets		$10,131,224	$10,119,548	$9,026,327	$9,037,790	$10,135,851	$10,592,332
Property, plant and equipment (Note 2)		2,937,741	2,823,624	2,575,013	2,515,796	2,342,984	2,339,745
Intangible assets		19,047	18,592	44,156	39,411	40,685	38,499
Other assets (Note2)		8,694,992	9,397,316	9,949,986	9,352,549	10,258,587	10,669,678
Total assets		21,783,004	22,359,080	21,595,482	20,945,546	22,778,107	23,640,254
Current liabilities	Before distribution	6,412,080	6,209,964	6,102,541	6,549,326	6,740,593	6,906,984
	After distribution	8,445,170	7,854,375	7,298,476	7,147,294	Note 4	Note 4
Non-current liabilities		2,810,855	2,775,834	2,415,959	2,314,846	2,760,497	2,897,238
Total liabilities	Before distribution	9,222,935	8,985,798	8,518,500	8,864,172	9,501,090	9,804,222
	After distribution	11,256,025	10,630,209	9,714,435	9,462,140	Note 4	Note 4
Total equity attributable to owners of the Corporation		12,014,923	12,845,400	12,586,036	11,585,175	12,752,176	13,292,633
Common shares		2,989,838	2,989,838	2,989,838	2,989,838	2,989,838	2,989,838
Capital surplus		416,505	416,505	416,505	416,548	416,548	416,548
Retained earnings	Before distribution	8,189,274	9,149,457	9,444,122	8,986,413	10,115,280	10,594,205
	After distribution	6,156,184	7,505,046	8,248,187	8,388,445	Note 4	Note 4
Other equity		419,306	289,600	(264,429)	(807,624)	(769,490)	(707,958)
Treasury stock		-	-	-	-	-	-
Non-controlling interests		545,146	527,882	490,946	496,199	524,841	543,399
Total equity	Before distribution	12,560,069	13,373,282	13,076,982	12,081,374	13,277,017	13,836,032
	After distribution	10,526,979	11,728,871	11,881,047	11,483,406	Note 4	Note 4

*If the Company has an Independent financial report, it shall prepare another condensed balance sheet and comprehensive income statement of the Independent for the latest five years.

*If the IFRS has been used for less than 5 years, the following table shall be prepared by applying the AIS for financial information: not applicable.

Note 1: The year not examined and approved by the Accountant shall be indicated.

Note 2: For assets revaluation in the current year, the date of such revaluation and the amount of appreciation shall be indicated.

Note 3:As of the date of the publication of the annual report, a company that is listed or whose shares have been traded in the business premises of a securities firm shall disclose the most recent financial information that has been audited or reviewed by Accountants.

Note 4:Please fill in the distribution figures above according to the resolution of the shareholders' meeting of the next year.

Note 5:Where financial data are notified by the competent authority to be corrected or recompiled, the corrected or recompiled figures, the situation and reasons shall be presented and indicated

1. (2) Independent Condensed Balance Sheet– Based on IFRS

Unit: NTD$ 1,000

Items \ Year		Financial Information over the Last Five Years				
		2014	2015	2016	2017	2018
Current assets		$5,978,508	$5,866,232	$5,277,626	$5,247,900	$6,323,065
Property, plant and equipment (Note 2)		941,860	961,538	987,304	1,058,757	1,033,651
Intangible assets		-	-	-	-	-
Other assets		12,293,409	13,433,521	13,133,442	12,417,829	13,235,730
Total assets		19,213,777	20,261,291	19,398,372	18,724,486	20,592,446
Current liabilities	Before distribution	4,972,065	5,065,429	4,700,160	5,003,694	5,142,976
	After distribution	7,005,155	6,709,840	5,896,095	5,601,662	Note 2
Non-current liabilities		2,226,789	2,350,462	2,112,176	2,135,617	2,697,294
Total liabilities	Before distribution	7,198,854	7,415,891	6,812,336	7,139,311	7,840,270
	After distribution	9,231,944	9,060,302	8,008,271	7,737,279	Note 2
Total equity attributable to owners of the Corporation		12,014,923	12,845,400	12,586,036	11,585,175	12,752,176
Common shares		2,989,838	2,989,838	2,989,838	2,989,838	2,989,838
Capital surplus		416,505	416,505	416,505	416,548	416,548
Retained earnings	Before distribution	8,189,274	9,149,457	9,444,122	8,986,413	10,115,280
	After distribution	6,156,184	7,505,046	8,248,187	8,388,445	Note 2
Other equity		419,306	289,600	(264,429)	(807,624)	(769,490)
Treasury stock		-	-	-	-	-
NON-CONTROLLING INTERESTS		-	-	-	-	-
Total equity	Before distribution	12,014,923	12,845,400	12,586,036	11,585,175	12,752,176
	After distribution	9,981,833	11,200,989	11,390,101	10,987,207	Note 2

Note 1: The financial data for the period from 2014 to 2018 are certified by the Accountant.
Note 2: please fill in the distribution figures above according to the resolution of the shareholders' meeting of the next year.

2. (1) Consolidated Condensed Statement of Comprehensive Income – Based on IFRS

Unit: Except that the earnings per share are NTD$ 1 the rest are NTD$ 1,000.

Items \ Year	Financial Information over the Last Five Years					Financial Information Checked by Accountants as at 31 March 2019
	2014	2015	2016	2017	2018	
Sales	$27,217,143	$28,094,340	$22,901,472	$22,396,174	$25,852,942	5,574,733
Realized gross profit	4,792,773	4,794,307	3,486,451	2,762,630	3,218,229	773,870
Profit from operations	2,661,411	2,824,371	1,539,061	1,028,826	1,351,280	290,911
Non-operating income (expenses)	1,608,860	1,072,229	892,034	7,248	1,270,375	344,488
Net income before tax	4,270,271	3,896,600	2,431,095	1,036,074	2,621,655	635,399
Net profit at current period	3,389,751	3,044,990	1,915,444	798,474	1,745,837	496,509
Losses of discontinued unit	-	-	-	-	-	-
Net profit (loss)	3,389,751	3,044,990	1,915,444	798,474	1,745,837	496,509
Other comprehensive income (loss) for the year, net of income tax	291,907	(198,687)	(575,166)	(598,190)	47,774	62,506
Total comprehensive income for the yeaR	3,681,659	2,846,303	1,340,278	200,284	1,793,611	559,015
Net profit attributable to: owners of the corporation	3,349,849	3,040,275	1,918,953	797,361	1,708,835	478,925
Net profit attributable to:non-controlling interests	39,903	4,715	(3,509)	1,113	37,002	17,584
Total comprehensive income attributable to: owners of the corporation	3,632,863	2,863,567	1,385,047	195,031	1,764,969	540,457
Total comprehensive income attributable to: non-controlling interests	48,796	(17,264)	(44,769)	5,253	28,642	18,558
Earnings per share	11.20	10.17	6.42	2.67	5.72	1.60

*If the Company has an Independent financial report, it shall prepare another concise balance sheet and comprehensive income statement of the Independent for the latest five years.
*If the IFRS has been used for less than 5 years, the following table shall be prepared by applying the AIS for financial information: not applicable.
Note 1: The year not examined and approved by the Accountant shall be indicated.
Note 2: As of the date of the publication of the annual report, a company that is listed or whose shares have been traded in the business premises of a securities firm shall disclose the most recent financial information that has been audited or reviewed by Accountants.
Note 3 :For assets revaluation in the current year, the date of such revaluation and the amount of appreciation shall be indicated.
Note 4: Where financial data are notified by the competent authority to be corrected or recompiled, the corrected or recompiled figures, the situation and reasons shall be presented and indicated.

2. (2) Independent Condensed Statement of Comprehensive Income – Based on IFRS

Unit: Except that the earnings per share are NTD$ 1 the rest are NTD$ 1,000.

Items \ Year	Financial Information over the Last Five Years				
	2014	2015	2016	2017	2018
Sales	$17,730,569	$19,799,371	$16,980,611	$18,213,043	$22,795,595
Realized gross profit	2,494,277	2,964,475	2,214,815	1,825,250	2,123,202
Profit from operations	1,545,532	2,063,151	1,386,668	1,091,243	1,310,589
Non-operating income (expenses)	2,470,486	1,664,134	1,023,813	(102,340)	1,241,457
Net income before tax	4,016,018	3,727,285	2,410,481	988,903	2,552,046
Net profit at current period	3,349,849	3,040,275	1,918,953	797,361	1,708,835
Losses of discontinued unit	-	-	-	-	-
Net profit (loss)	3,349,849	3,040,275	1,918,953	797,361	1,708,835
Other comprehensive income (loss) for the year, net of income tax	283,014	(176,708)	(533,906)	(602,330)	56,134
Total comprehensive income for the year	3,632,863	2,863,567	1,385,047	195,031	1,764,969
Net profit attributable to: owners of the corporation	3,349,849	3,040,275	1,918,953	797,361	1,708,835
Net profit attributable to:non-controlling interests	-	-	-	-	-
Total comprehensive income attributable to: owners of the corporation	3,632,863	2,863,567	1,385,047	195,031	1,764,969
Total comprehensive income attributable to: non-controlling interests	-	-	-	-	-
Earnings per share	11.20	10.17	6.42	2.67	5.72

Note : The financial data for the period from 2014 to 2018 are certified by the Accountant.

3. Auditors' Opinions for the Last Five Years:

Year	Name of accounting firm	Accountant	Audit opinion
2014	Deloitte & Touche	Te-Jun Cheng Lie-Dong Wu	Revised clean opinion
2015	Deloitte & Touche	Te-Jun Cheng Lie-Dong Wu	Revised clean opinion
2016	Deloitte & Touche	Shu-Chin Chiang, Lie-Dong Wu.	Clean opinion
2017	Deloitte & Touche	Shu-Chin Chiang, Lie-Dong Wu.	Clean opinion
2018	Deloitte & Touche	Shu-Chin Chiang, Lie-Dong Wu.	Clean opinion
First quarter of 2019	Deloitte & Touche	Shu-Chin Chiang, Done-Yuin Tseng	Review report of reserved conclusions

ii. Five-Year Financial Analysis

1. (1) Consolidated Financial Analysis – Based on IFRS

Items	Year	Financial Analysis over the Last Five Years					Financial information as of March 31, 2019 (Note 1)
		2014	2015	2016	2017	2018	
Financial structure (%)	Debt Ratio	42.3	40.2	39.5	42.3	41.7	41.5
	Ratio of long-term capital to property, plant and equipment	447.1	489.9	521.31	489.3	572.0	596.7
Solvency (%)	Current ratio	158.0	163.0	147.9	138.0	150.3	153.4
	Quick ratio	107.5	112.7	94.6	84.0	92.8	95.4
	Interest earned ratio (times)	157.9	179.1	108.3	39.3	52.4	54.7
Operating performance	Accounts receivable turnover (times)	14.9	14.7	12.5	13.0	12.3	7.4
	Average collection period	24	25	29.2	28.1	29.7	49.0
	Inventory turnover (times)	6.6	6.9	5.9	5.7	6.0	4.8
	Accounts payable turnover (times)	5.5	5.8	5.3	5.2	5.7	5.1
	Average days in sales	55	53	62	64	61	75
	Property, plant and equipment turnover (times)	9.3	9.9	8.9	8.9	11.0	9.5
	Total assets turnover (times)	1.3	1.3	1.1	1.1	1.1	0.9
Profitability	Return on total assets (%)	16.8	13.9	8.8	3.9	8.2	2.2
	Return on stockholders' equity (%)	29.3	23.5	14.5	6.4	13.8	3.7
	Pre-tax income to paid-in capital (%)	142.8	130.3	81.3	34.7	87.7	21.3
	Profit ratio (%)	12.5	10.8	8.4	3.6	6.8	8.9
	Earnings per share (NTD$)	11.2	10.2	6.4	2.7	5.7	1.6
Cash flow	Cash flow ratio (%)	50.7	31.2	28.1	4.7	10.9	(7.8)
	Cash flow adequacy ratio (%)	126.7	117.5	127.9	94.7	87.5	61.4
	Cash reinvestment ratio (%)	9.4	(0.6)	0.4	(5.6)	0.8	(2.9)
Leverage	Operating leverage	1.1	1.1	1.2	1.3	1.2	1.2
	Financial leverage	1.0	1.0	1.0	1.0	1.0	1.0

Please explain the reasons for the recent changes in the financial ratios in the past two years (if the increase or decrease is less than 20%, it ca exempted from analysis):

1. Interest earned ratio (times): the increase of 33% is due to the increase in combined profits.
2. Property, plant and equipment turnover (times): the 24% increase is attributable to the increase in combined sales.
3. Return on total assets (%) :the increase of 110% is due to the increase in consolidated profits.
4. Return on stockholders' equity (%): the increase of 116% is due to the increase in combined profits.
5. Pre-tax income to paid-in capital (%): the increase of 153% is due to the increase in combined profits.
6. Profit ratio (%): the increase of 89% is due to the increase in combined profits.
7. Earnings per share (NTD$): the increase of 111% is due to the increase in combined profits.
8. Cash flow ratio (%): the increase of 132% is due to the increase in net cash inflows from business activities as a result of the increase i consolidated profits.
9. Cash reinvestment ratio (%):the increase of 114% is due to the increase in net cash inflows from business activities as a result of the increase i consolidated profits.

*If a company has prepared an Independent financial report, it shall prepare a separate analysis of the Independent financial ratio of the company.

*If the IFRS has been used for less than 5 years, the following table shall be prepared by applying the AIS for financial information: not applicable.

Note 1: The Company's financial reports for 2014 to 2018 are certified by Accountants, and the financial data for the first quarter of 2019 are certified by Accountants.

Note 2: As of the date of the publication of the annual report, a company that is listed or whose shares have been traded in the business premises of a securities firm shall provide analysis of the most recent financial information that has been certified or reviewed by Accountants.

Note 3: At the end of this table, the following calculation formula should be shown:

1. Financial structure

(1) Debt Ratio =total liabilities/total assets.

(2) Ratio of long-term capital to property, plant and equipment = (total equity+non-current liabilities)/net amount of real estate, facilities and equipment.

2. Solvency (%)

(1) Current ratio =current assets/current liabilities.

(2) Quick ratio = (current assets-inventory-payment in advance)/current liabilities.

(3) Interest earned ratio (times)=income tax and pre-tax net profit/interest expenses for current period.

3. Operating performance

(1) Accounts receivable turnover (times) (including receivables and notes receivable arising from business) is equal to net sales/average receivables (including receivables and notes receivable arising from business).

(2) Average collection period =365/receivable turnover rate.

(3) Inventory turnover (times) = cost of sale / average inventory.

(4) Accounts payable turnover (times) (including accounts payable and notes payable arising from business) = sales cost/average balance of accounts payable for each period (including accounts payable and notes payable arising from business).

(5) Average days in sales =365/inventory turnover rate.

(6) Property, plant and equipment turnover (times)t=net sales volume/average net amount of real estate, facilities and equipment.

(7) Total assets turnover (times)=net sales volume/average total assets.

4. Profitability

(1) Return on total assets (%) = [after-tax profit and loss + interest expense * (1-tax rate)] / average total assets.

(2) Return on stockholders' equity (%) = after-tax profit/loss/total average equity.

(3) Profit ratio (%) = after-tax profit/loss/net sales.

(4) Earnings per share (NTD$)= (profits and losses attributable to the owner of the parent Company)/weighted average number of issued shares.(Note 4)

5. Cash Flow

(1) Cash flow ratio = net cash flow of business activities / current liabilities.

(2) Cash flow adequacy ratio (%)=Net Cash Flow of Business Activities in the Last Five Years/Last Five Years (Capital Expenditure + Inventory Increase + Cash Dividend).

(3) Cash reinvestment ratio (%)=(net cash flow of business activities - cash dividend) /(gross amount of real estate, facilities and equipment+long-term investment+other non-current assets+operating funds). (Note 5)

6. Leverage:

(1) Operating leverage = (Net Operating Revenue - Variable Operating Costs and Expenses) / Operating Benefits (Note 6)

(2) Financial leverage = Operating Interest/ (Operating Interest - Interest Cost).

Note 4: When measuring the earnings per share of the previous opening, the following points should be paid special attention to:

1.The weighted average number of common shares is the basis rather than the number of issued shares at the end of the year.

2.Where there is a cash increase or treasury stock trader, the weighted average number of shares shall be calculated taking into account the period of circulation.

3.Where there is surplus to capital increase or capital reserve to capital increase, the calculation of earnings per share in previous years and half years shall be retroactively adjusted according to the proportion of capital increase, without taking into account the issuance period of such capital increase.

4.If the special shares are non-convertible cumulative special shares, the dividends (whether paid or not) of the current year shall be deducted from the after-tax net profit or increased the after-tax net loss. If the special shares are non-cumulative, the dividends of the special shares shall be deducted from the after-tax net profit in the case of the after-tax net profit;If it is a loss, no adjustment is necessary.

Note 5: Cash flow analysis should pay special attention to the following items when measuring:

1. Net cash flow of business activities refers to the net cash inflow of business activities in the statement of cash flows.

2. Capital expenditure refers to the cash flow of capital investment each year.

3. Inventory increases are counted only when the closing balance is greater than the initial balance. If the end-of-year inventory decreases, they are counted as zero.

4 .Cash dividends includes cash dividend of common stock and special stock.

5.Gross real estate, plant and equipment refer to the total amount of real estate, plant and equipment before the cumulative depreciation is deducted.

Note 6:The issuer shall differentiate the operating costs and operating expenses into fixed and variable ones according to their nature. If there are estimates or subjective judgments involved, the issuer shall pay attention to their reasonableness and maintain consistency.

Note 7: If the Company's shares have no face value or the face value per share is not NT $10, the previous calculation of the paid-in capital ratio shall be changed to the equity ratio of the balance sheet attributable to the owner of the parent company.

1. (2) Independent Financial Analysis – Based on IFRS

Items	Year	Financial Analysis over the Last Five Years				
		2014	2015	2016	2017	2018
Financial structure (%)	Debt Ratio	37.5	36.6	35.12	38.13	38.07
	Ratio of long-term capital to property, plant and equipment	1,275.7	1,335.9	1,274.8	1,094.2	1,233.7
Solvency (%)	Current ratio	120.2	115.8	112.3	104.9	123.0
	Quick ratio	98.4	92.7	84.7	76.0	91.4
	Interest earned ratio (times)	709.7	675.0	401.0	159.8	269.9
Operating performance	Accounts receivable turnover (times)	8.0	8.6	7.5	8.9	9.6
	Average collection period	46	43	49	41	38
	Inventory turnover (times)	13.4	13.7	11.5	11.7	13.1
	Accounts payable turnover (times)	4.6	5.1	4.5	4.7	5.6
	Average days in sales	27	27	32	31	28
	Property, plant and equipment turnover (times)	18.8	20.6	17.2	17.2	22.1
	Total assets turnover (times)	0.9	1.0	0.9	1.0	1.1
Profitability	Return on total assets (%)	18.6	15.4	9.7	4.2	8.7
	Return on stockholders' equity (%)	30.3	24.5	15.1	6.6	14
	Pre-tax income to paid-in capital (%)	134.3	124.7	80.6	33.1	85.4
	Profit ratio (%)	18.9	15.4	11.3	4.4	7.5
	Earnings per share (NTD$)	11.2	10.2	6.4	2.7	5.7
Cash flow	Cash flow ratio (%)	50.8	29.1	44.3	14.5	14.5
	Cash flow adequacy ratio (%)	124.0	110.2	114.0	98.9	92.4
	Cash reinvestment ratio (%)	5.7	(3.6)	3.0	(3.4)	0.9
Leverage	Operating leverage	1.0	1.0	1.0	1.1	1.1
	Financial leverage	1.0	1.0	1.0	1.0	1.0

Please explain the reasons for the recent changes in the financial ratios in the past two years (if the increase or decrease is less than 20%, it ca exempted from analysis):
1. Quick ratio: the increase of 20% is due to the increase in accounts receivable and the increase in current assets.
2. Interest earned ratio (times): the increase of 69% is due to the increase in combined profits.
3. Property, plant and equipment turnover (times): the increase of 28% is due to the increase in sales.
4. Return on total assets (%): the increase of 107% is due to the increase in profits.
5. Return on stockholders' equity (%): the increase of 112% is attributable to the increase in profits.
6. Pre-tax income to paid-in capital (%): the increase of 158% is due to the increase in profits.
7. Profit ratio (%): the increase of 70% is due to the increase in profits.
8. Earnings per share (NTD$): the increase of 111% is due to the increase in profits.
9. Cash reinvestment ratio (%): the increase of 126% is due to the increase in profits.

*.If the IFRS has been used for less than 5 years, the following table shall be prepared by applying the AIS for financial information: not applicable.

Note 1: The Company’s financial reports for the period from 2014 to 2018 are certified by Accountants.

Note 2: The financial analysis formula should be explained in detail in Note 3 of Table 1 (1).

iii. Audit Committee's review report on the 2018 financial statements and 2018 Earning Distribution Table：

Audit Committee's review report

The Board of Directors of Merida prepared the Independent and Consolidated financial statements in 2018, and entrusted the Accountant Shu-Chin Chiang, and the Accountant Lie-Dong Wu from Deloitte & Touche with the audit of the financial statements, who have completed the audit and worked out the audit report. The abovementioned financial statements are the operating report and proposal for distribution of gains, and no noncompliance is found after it is checked by the Audit Committee. It is hereby reported as above in accordance with the relevant provisions of Security Exchange Law and the Company Law for checking.

Yours Faithfully

2019 Annual Shareholders' Meeting

Merida Industry Co., Ltd.

Chairman of the Audit Committee

Chen Shui-jin

Date：March 22, 2019

iv. Consolidated Financial Report of 2018: Please refer to Page 157.

v. Independent Financial Report of 2018: Please refer to Page 93.

vi.The impacts of financial difficulties on the Financial Situation happened to the Company and its affiliated companies in recent years and before the print date of Annual Report: None.

VII. Review of Financial Conditions, Operating Results, and Risk Management

i. Analysis of Financial Status:

1. Comparison and Analysis of Financial Situation:

Unit: NTD$ 1,000

Items \ Year	2017	2018	Differences	
			Amount	%
Current assets	9,037,790	10,135,851	1,098,061	12.1
Funds and investment	8,911,239	9,748,293	837,054	8.6
Property, plant and equipmen	2,515,796	2,343,984	(171,812)	(6.8)
Other assets	480,721	550,979	70,258	14.6
Total assets	20,945,546	22,778,107	1,832,561	8.7
Current liabilities	6,549,326	6,740,593	191,267	2.9
Non-current liabilities	227,294	125,744	(101,550)	(44.7)
Other liabilities	2,087,552	2,634,753	547,201	26.2
Total liabilities	8,864,172	9,501,090	636,918	7.2
Total equity attributable to owners of the Corporation	11,585,175	12,752,176	1,167,001	10.1
Common shares	2,989,838	2,989,838	0	0.0
Capital surplus	416,548	416,548	0	0.0
Retained earnings	8,986,413	10,115,280	1,128,867	12.6
Other equities	(807,624)	(769,490)	38,134	(4.7)
Non-controlling interests	496,199	524,841	28,642	5.8
Total equity	12,081,374	13,277,017	1,195,643	9.9

2. Statement:

(1). The decrease in Non-current liabilities is mainly due to the continued repayment of long-term bank loans.

ii. Analysis of Financial Performance

1. Comparisons and Analysis of Financial Performance:

Unit: NTD$1,000

Items \ Year	2017	2018	Increase (decrease) of amount	Ratio of change (%)
Sales	$22,396,174	$25,852,942	$3,456,768	15.4
Cost of goods sold	19,715,439	22,463,953	2,748,514	13.9
Gross profit	2,680,735	3,388,989	708,254	26.4
Realized (unrealized) gain on transactions with associates	81,895	(170,760)	(252,655)	(308.5)
Realized gross profit	2,762,630	3,218,229	455,599	16.5
Operating expenses	1,733,804	1,866,949	133,145	7.7
Non-operating income and expenses	7,248	1,270,375	1,263,127	17,427.2
Profit before income tax	1,036,074	2,621,655	1,585,581	153
Income tax expenses	237,600	875,818	638,218	268.6
Net profit for the year	798,474	1,745,837	947,363	118.6
Other comprehensive income (loss) for the year, net of income tax	(598,190)	47,774	645,964	(108.0)
Total comprehensive income for the year	200,284	1,793,611	1,593,327	795.5
Net profit attributable to: owners of the corporation	797,361	1,708,835	911,474	114.3
Net profit attributable to:non-controlling interests	1,113	37,002	35,889	3,224.5
Total comprehensive income attributable to: owners of the corporation	195,031	1,764,969	1,569,938	805.0
Total comprehensive income attributable to: non-controlling interests	5,253	28,642	23,389	445.3

2. Statement:

(1).Decrease of REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH ASSOCIATES: mainly due to the increase of stock not sold in invested companies

(2).Increase of NON-OPERATING INCOME AND EXPENSES: mainly due to the continual profits made by the re-invested companies.

(3).Increase of income tax expenses: the main reason is that Taiwan's income tax rate has been revised from 17% to 20% and its profits have increased in the current period.

(4).Increase of NET PROFIT FOR THE YEAR in current year: mainly due to the increase of combined sales and profits in current period.

(5).Increase of Other comprehensive income (loss) for the year, net of income tax: this is mainly due to the appreciation of the US dollar, which increases the exchange difference of financial statements converted by foreign operating agencies.

(6).Increase of TOTAL COMPREHENSIVE INCOME FOR THE YEAR: this is mainly due to the increase of combined sales and profits.

(7).Increase of NET PROFIT and TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: Owners of the Corporation: mainly due to the increase of combined sales and profits in current period.

(8).Increase of NET PROFIT and TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: non-controlling interests: mainly due to the increase of combined sales and profits in current period.

iii. Analysis of Cash Flow:

1. Comparison and Analysis of Cash Flow:

Year / Items	2017	2018	Increase (decrease) of ratio (%)
Cash flow ratio (%)	4.7	10.9	132
Cash flow adequacy ratio (%)	94.7	87.5	(8)
Cash reinvestment ratio (%)	(5.6)	0.9	116

2. Statement:

(1).The increase in cash flow ratio is due to the increase in net cash inflows from business activities as a result of the increase in consolidated profits in 2018.

(2).The decrease in the cash flow adequacy ratio is attributed to the decrease in net cash inflows from business activities in recent years owing to the decrease in consolidated profits.

(3).The increase of cash reinvestment ratio is due to the increase in net cash inflows from business activities as a result of the increase in consolidated profits in 2018.

3. Analysis of Cash Liquidity in the Next Year:

Unit: NTD$1,000

Cash balance at the beginning of the year (1)	Expected net cash flow from operating activities for the full year (2)	Expected annual cash outflow (3)	Expected cash surplus (shortfall) amount(1)＋(2)－(3)	Remedy for anticipated cash shortfall	
				Investment plan	Financing plan
3,220,019	1,560,194	1,489,077	3,291,136	-	-

iv. Major Capital Expenditure Items:

1. Major Capital Expenditure Items and Source of Capital

(1).In recent years, the Company's operation has continued to rise. Although some of its factories have been expanded from 2008 to 2011, in order to meet the needs of production line business, it has been assessed that in 2013, it acquired factories adjacent to non-urban land as land for expansion and invested about NTD$200 million in additional e-bike factories and production lines, and continuously optimize the production line of e-bikes.

(2).In order to increase the production capacity of the frame production line and improve the precision and speed of tube cutting, the Company has successively updated the pre-treatment equipment and purchased laser cutting machine from 2017 to 2018, and invested in the automatic welding machine; The Company also expects to invest NTD$24 million to upgrade its wastewater treatment facilities in response to environmental protection and corporate social responsibility.

(3). Source of funds: payment with the Company's own funds.

2. Expected Benefits: the annual capacity of the expansion and addition of the e-bike plant is about 200,000 units, with an annual output of about NTD$8 billion;With the improvement of frame production line and equipment, the production capacity can be increased by more than 25%.

v. Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

1. Since the establishment of the German subsidiary of Merida in 1988, the Company has successfully entered the European market with its own brand MERIDA. Up to now, it has invested in 12 companies in Europe; Specialized Bicycle Components, Inc. was invested in US; Miyata Bicycle Co., Ltd. and

Merida (Korea) Co., Ltd. were invested in Japan and Korea respectively; In addition to setting up factories in Shenzhen, Shandong and Nantong to produce bicycles, 16 branches have been set up in mainland China to expand the domestic market. More than 60 countries around the world also have professional agents, the Company's global bicycle sales network has been completed.

2. Long-term equity investment can increase the Company's sales opportunities and generate investment benefits.

vi. Analysis of Risk Management:

1. Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures:

(1).The US dollar interest rate rose in 2018, while the Japanese yen interest rate fluctuated little. In the cost of imported raw materials denominated in US dollars and Japanese dollars, the interest expense of 2018 increased by NTD$2,399 thousand compared with that of 2017. However, the U.S. economy slowed down in the second half of 2018, and Fed's interest rate hike opportunities declined sharply in 2019. Interest expenditure on the cost of imported raw materials in U.S. dollars is expected to be level off or slightly reduced.

(2).The Company's products are exported and raw materials are purchased and imported from abroad, and the exchange rate fluctuations have a significant impact on the Company's profits and losses. In 2018, the US dollar exchange rate rises and the Japanese currency exchange rate slightly depreciates, resulting in exchange benefits of NTD$124,183 thousand.

(3).Looking ahead to 2019, due to the Sino-US trade war, it is anticipated that the slowing or even global economic climate will offset the pressure of OPEC's output reduction and oil price rise. In addition, the slowing domestic economy and moderate demand will not drive up prices. The Company will continue to pay close attention to international price trends and strictly control all expenses and expenditures to reduce costs.

(4).In the future, we will follow the trend of interest rate and exchange rate to comply with the relevant management regulations of our Company.

2. Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions:

(1).The Company is not engaged in high-risk, high-leverage investment.

(2).The Company is engaged in capital loans to others, endorsement guarantees and derivative commodity transactions in accordance with the relevant management provisions of the Company.

3. Future Research & Development Projects and Corresponding Budget:

(1).Future research and development plan: continue to develop new products in the direction of new materials, new uses and new functions ("3N")

(2).Estimated R&D expenditure: full support after analyzing the R &D plan.

(3).R & D plan in the next two years:

1) R &D plan of road disc brake rack:

The cost of R&D is estimated to be NTD$10,000 thousand.

"Road Disc Brake Rack" is an innovative research and development plan for the new brake system for Merida Highway Vehicles to cater to the future market demand. The brake system has been used for mountaineering vehicles for many years. It has the advantages of braking power lifting, pressing effort saving, excellent hand feeling, overcoming the muddy roads as well as free from burning carbon fiber car frame. However, the design of high-class road vehicles is a severe challenge in terms of weight requirements! The disc brake has a great longitudinal cutting force. Therefore, it is necessary to strengthen the local structural strength of the vehicle frame. When the disc brake system is activated, high temperature will be generated due to friction with the disc brake. How to overcome the influence of temperature on the deterioration of carbon fiber resin is also a problem to be overcome. Innovative research and development of highway disc brake system which meets the market demand will surely re-create my market sales success!

2) Improvement R & D plan for e-bike:

The cost of R&D is estimated to be NTD$20,000 thousand.

"E-bikes" have become increasingly popular. The sales are increasing year by year, and the sales amount has reached more than 25% of our revenue. It has become the powerful star commodity of the Company! At present, the main types of vehicles include urban bicycles, mountaineering bicycles and electric road vehicles whose research and development is nearly completed, so we plan to expand all types of vehicles, tighten the vehicle modeling, increase the range, optimize the operation interface and increase the driving pleasure.

3. Information on R & D:

Plans in recent years	Current progress	Research and development expenses should be reinvested	Time to complete mass production	The main influencing factors of successful R&D in the future
Road disc brake rack	Frame graphic design. Verification of heat dissipation mechanism.	About NTD$10 million	Graphics for the first quarter of 2019 is completed Mould for the second quarter of 2019 is completed Sample testing and calibration in the third quarter of 2019, European professional fleet evaluation Mass production in the fourth quarter of 2019.	New research and development of vehicles, in line with UCI standards, to meet market demand.
E-bikes	Research and analysis of each brand electric group. Design of larger capacity battery pack. Design of dual battery switching system	About NTD$20 million	Graphics for the first quarter of 2019 is completed Mould for the second quarter of 2019 is completed Sample testing and calibration in the third quarter of 2019, European professional fleet evaluation Mass production in the fourth quarter of 2019.	Select the co-manufacturers of the superior electric group, broaden the product line categories, deepen the refined vehicle performance, and tighten the vehicle modeling, so as to make the vehicle innovative, high-quality and popular with consumers!

4. Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales:

(1).In response to the advent of the era of globalization, the way of financial information production (accounting standards for preparing financial statements) has become an important issue across national boundaries. According to the arrangement of the competent authority to introduce the international accounting standard IFRS schedule, our Company (parent company in Taiwan) has been in line with the international accounting standard IFRS since 2013.

(2).The Ministry of Finance amended the unified invoice usage method, stipulating that electronic computer invoices can only be used until the end of 2019, and that electronic invoices must be changed from 2020. Our company has entered the testing stage in response to related supporting operations.

(3).The Company has been paying close attention to various important policies, financial situations, securities and regulatory laws, tax laws, financial and accounting standards and other relevant laws and regulations changes at home and abroad, in order to reduce the impact on the Company.

5. The Impact of Technological Change and Industrial Change on Corporate Financial Business and Corresponding Measures

(1).The Company continues to introduce industrial technology and apply it to product development and process improvement.

(2).In order to strengthen the Company's information security management, the Company plans to have strong management measures for various information risks, such as: device management, hardware protection, application system security monitoring, Internet access and mobile security, etc.

(3).To improve and enhance network and information system security capabilities and information governance standards through technical and management measures.

(4).The Company's most recent annual report and as of the date of publication of the annual report have not been affected by technology affecting the Company's financial and business affairs.

6. The Impact of Corporate Image Change on Enterprise Crisis Management and Countermeasures: None.

7. Expected Benefits, Possible Risks and Countermeasures of Mergers and Acquisitions: None.

8. Expected Benefits, Possible Risks and Countermeasures for Expansion of Plant:

(1).Expected benefits of plant expansion can be found on page 84 4-(2)

(2).Possible Risks and Countermeasures: driven by the continuous growth of the global electric bicycle market, in order to meet the business needs of the production line, we should timely control the expansion scale and optimize the production line to meet the hot demand of the market in the best production scale.

9. Risks and Measures of Concentration of Purchase or Sale: None.

10. The impact, risks and countermeasures of the transfer or replacement of a large number of shares of directors, supervisors or major shareholders holding more than 10% of the shares on the Company: None.

11. The Impact, Risk and Response Measures of the Change of Operating Right on the Company: None.

12. Litigation or Non-litigation Issues: None.

13. Other Important Risks: None.

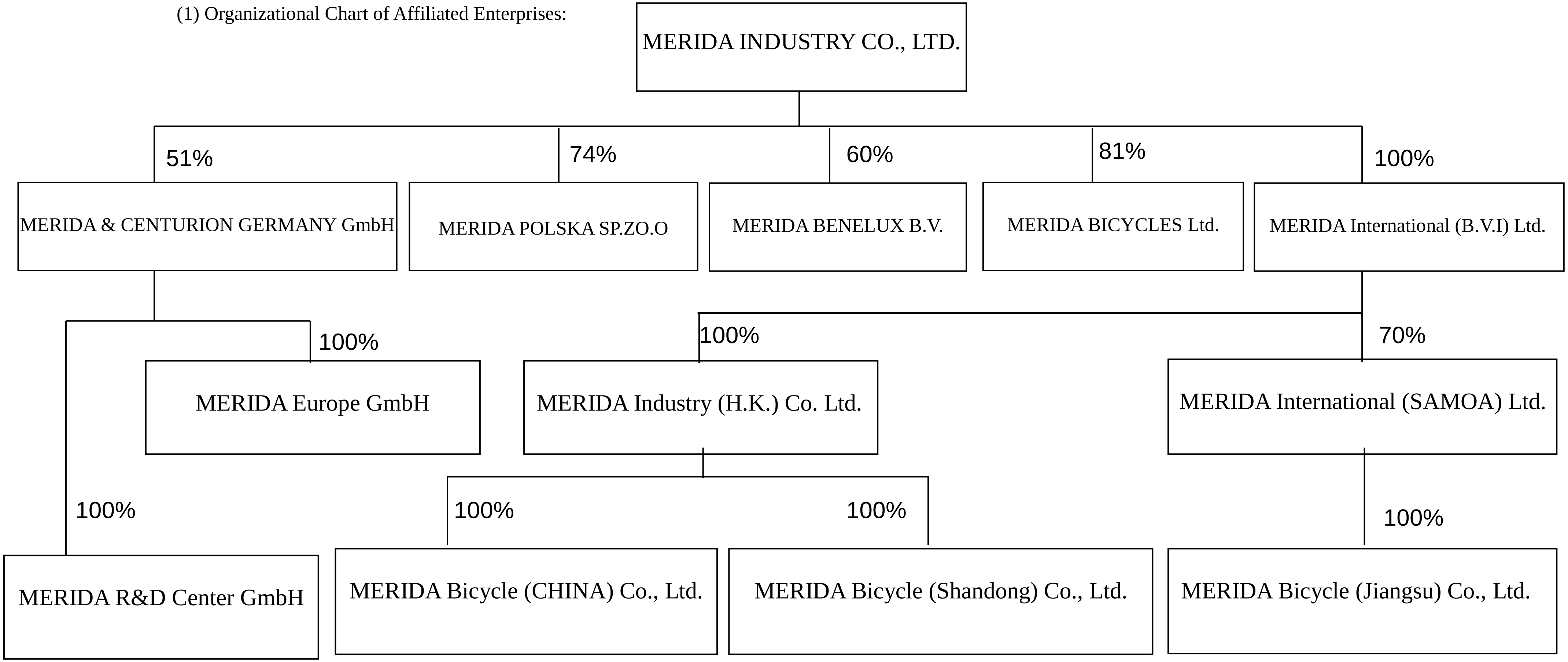
vii. Other Important Matters: None.

VIII. Special Disclosure

i. Summary of Affiliated Companies:

1. Business Report on Combined Operation of Affiliated Enterprises:

(1) Organizational Chart of Affiliated Enterprises:



(1) Basic information on affiliated enterprises

Date:as of December 31, 2018

Name of enterprise	Date of establishment	Address	Paid-in capital	Major business contents
MERIDA & CENTURION GERMANY GmbH	September 14, 2001	BlumenstraBe 51 D-71106 Magstadt Germany.	EUR2,000	Sales of bike and components
MERIDA Europe GmbH	February 20, 2002	BlumenstraBe 49-51 D-71106 Magstadt Germany.	EUR25	Brand promotion and fleet management
MERIDA R&D Center GmbH	January 16, 2014	BlumenstraBe 49-51 D-71106 Magstadt Germany.	EUR25	Design and development of bikes
MERIDA POLSKA SP.ZO.O	June 13, 2001	Ul. M.Curie-Sklodowskiej 35,41-800 Zabrze Poland.	PLN135	Sales of bike and components
MERIDA BENELUX B.V.	June 10, 1998	Kruisweg 5, NL-7361 EB Beekbergen ,The Netherlands.	EUR3,341	Sales of bike and components
MERIDA BICYCLES Ltd.	February 28, 1995	Unit 13 Nottingham South & Wilford Industrial Estate Ruddington Lane Wilford, Nottingham, NG11 7EP U.K.	GBP592	Sales of bike and components
MERIDA International (B.V.I)Ltd.	January 31, 1997	CITCO Building P.O.Box 662, Road Town ,Tortola, British Virgin Islands.	USD42,500	Holding company
MERIDA Industry (H.K.) Co. Ltd.	May 18, 1993	Room C, 21/F, Levin Business Centre, 169 Electric Road, North Point, Hong Kong	HKD202,800	Investment holding and sales of bikes and components
MERIDA International (SAMOA)Ltd.	April 23, 2012	Portcullis TrustNet Chambers, P.O.Box 1225, Apia, Samoa	USD35,000	Investment holding and international trading
MERIDA Bicycle (CHINA) Co.,Ltd.	July 12, 1990	No. 278, Jiji Road, Buji, Shenzhen	RMB69,936	Processing, manufacturing and sales of bikes, e-bikes and components
MERIDA Bicycle (Shandong) Co.,Ltd.	March 3, 2007	2388 Jinghua Avenue, Dezhou Economic Development Zone, Shandong Province	RMB118,676	Processing, manufacturing and sales of bikes and components
MERIDA Bicycle (Jiangsu) Co.,Ltd.	June 28, 2012	No. 11 Xinxing East Road, Nantong Economic and Technological Development Zone, Jiangsu Province	RMB219,321	Production, sales, import and export and wholesales of e-bikes, bikes and components

(3). The information of the same shareholders presumed to have a controlling and subordinate relationship: None.

(4). The industries covered by the business of the enterprise as a whole.

1). Manufacturing, processing, assembling and marketing of bicycles and their components.

2). Manufacturing, processing, assembling and marketing of e-bikes and their components.
3). Bicycle design and development, brand promotion and fleet management.
4). Overseas holding companies.

(5). Information on directors, supervisors and Presidents of affiliated enterprises:

Date:as of December 31, 2018

Name of enterprises	Title	Name or representative	Number of share	Shareholding ratio (%)
MERIDA & CENTURION GERMANY GmbH	Shareholder Shareholder, director and President Director and President	MERIDA INDUSTRY CO.,LTD. Renner Wolfgang Gerd Klose	Unissued shares	51.00 49.00 -
MERIDA Europe GmbH	Shareholder President	MERIDA & CENTURION GERMANY GmbH Renner Wolfgang	Unissued shares	100.00
MERIDA R&D Center GmbH	Shareholder President	MERIDA & CENTURION GERMANY GmbH Renner Wolfgang	Unissued shares	100.00
MERIDA POLSKA SP.ZO.O	Shareholder Shareholder Shareholder and President	MERIDA INDUSTRY CO.,LTD .Ireneusz Marek, Brela Waldemar Zenon, Chrapek	100 18 17	74.07 13.33 12.60
MERIDA BENELUX B.V.	Director Director and President	MERIDA INDUSTRY CO.,LTD. Representative: Zheng,Wen-xiang Peter Koperdraad	766,126 510,752	60.00 40.00
MERIDA BICYCLES Ltd.	Director Director and President	MERIDA INDUSTRY CO.,LTD. Representative: Zheng Wen-xiang Christopher David Carter	481,763 110,729	81.31 18.69
MERIDA International (B.V.I)Ltd.	Chairman Director Director Director Director	MERIDA INDUSTRY CO.,LTD. Representative: Zeng,Song-zhu Chen, Jen-Kuei Chen Ying-zhou Zeng, Gui-su Cai,Xue-liang	42,500,000	100.00
MERIDA Industry (H.K.) Co. Ltd.	Shareholder Chairman Director Director	MERIDA International (B.V.I) Ltd. MERIDA INDUSTRY CO., LTD. Representative: Zeng,Song-zhu Chen, Jen-Kuei Hsu, Shih-Yan	202,800,000	100.00
MERIDA International (SAMOA)Ltd.	Shareholder Shareholder	MERIDA International (B.V.I) Ltd. 1220 Company	24,500,000	70.00

	 Chairman Director Director Director Director Director Director	MERIDA International (B.V.I) Ltd. Representative: Zeng,Song-zhu Chen, Jen-Kuei Zeng, Gui-su Zeng Jin-cheng Cai,Xue-liang Michael Wayne Sinyard Edward Alan Mitchell	10,500,000	30.00
MERIDA Bicycle (CHINA) Co.,Ltd.	Chairman Director Director Director Director (Vice) President President of Domestic Sales Headquarters	MERIDA Industry (H.K.) Co. Ltd. Representative: Zeng,Song-zhu Chen,Jen-Kuei Chen,Ying-zhou Zeng, Gui-su Cai,Xue-liang Wu, Min-Fang (left office on April 22, 2019).Cai Wei-sing (took office on April 22, 2019) Zhang Wen-Jie	Unissued shares	100.00
MERIDA Bicycle (Shandong) Co.,Ltd.	Chairman Director Director Director Director Supervisor Supervisor President	MERIDA Industry (H.K.) Co. Ltd. Representative: Zeng,Song-zhu Chen, Jen-Kuei Chen Ying-zhou Zeng, Gui-su Cai,Xue-liang Zheng,Wen-xiang Zeng Hui-zhi Tang Jia-hong	Unissued shares	100.00
MERIDA Bicycle (Jiangsu) Co.,Ltd.	Chairman Director Director Director Director Supervisor Supervisor President	MERIDA International (SAMOA)Ltd. Representative: Zeng,Song-zhu Zeng Jin-cheng Lai Ru-ding Yuan,Qi-bin Chen,Si-ru Zeng.,Gui-su Cai,Xue-liang Zen, Jin-cheng	Unissued shares	100.00

2. Overview of Business Operation of Affiliated Enterprises:

Unit: except Earnings per share is expressed in NTD$1, the remaining shall be expressed in NTD$1,000

Name of enterprises	Paid-in capital	Total assets	Total liabilities	Net values	Operating incomes	Operating gain (loss)	Benefits and losses of the current period (after tax)	Earnings per share (after tax)
MERIDA & CENTURION GERMANY GmbH	70,400	1,280,012	790,987	489,024	2,627,343	181,383	138,025	Unissued shares
MERIDA Europe GmbH	880	42,192	16,875	25,317	52,439	(6,940)	7,216	Unissued shares
MERIDA R&D Center GmbH	880	12,962	4,030	8,931	49,599	2,099	4,451	Unissued shares
MERIDA POLSKA SP.ZO.O	1,099	429,153	316,356	112,798	437,765	(1,378)	(2,049)	(15,174.3)
MERIDA BENELUX B.V.	117,609	295,011	285,974	9,037	441,429	433	(821)	(0.6428)
MERIDA BICYCLES Ltd.	23,036	282,296	238,753	43,543	267,802	(7,717)	2,767	4.6694
MERIDA International (B.V.I)Ltd.	1,305,388	2,912,413	0	2,912,413	0	0	(85,800)	(2.5612)
MERIDA Industry (H.K.) Co. Ltd.	795,179	2,279,709	0	2,279,709	76,696	1,327	(1,838)	(0.0091)
MERIDA International (SAMOA)Ltd.	1,075,025	879,970	0	879,970	102,200	1,010	(120,017)	(6.3167)
MERIDA Bicycle (CHINA) Co.,Ltd.	312,753	1,166,815	194,403	972,411	1,830,396	(38,544)	1,005	Unissued shares
MERIDA Bicycle (Shandong) Co.,Ltd.	530,719	950,133	155,934	794,199	632,211	(54,420)	(16,273)	Unissued shares
MERIDA Bicycle (Jiangsu) Co.,Ltd.	980,801	1,476,761	642,616	834,144	733,396	(99,993)	(122,034)	Unissued shares

3. Statement for Consolidated Financial Report of Affiliated Enterprises: please refer to Page 158.

4. Consolidated Financial Statement of Affiliated Enterprises: please refer to Page 163 to 168.

5. Relation Report: None.

ii. Private Placement Securities in the Most Recent Years: None.

iii. The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years: None.

iv. Other Necessary Supplementary Notes: None.

IX. For the Most Recent Year and up to the Date of the Publication of the Annual Report, Matters Referred to in Paragraph 2, Item 3, Article 36 of the Securities Exchange Law Occur: None.

Merida Industry Co., Ltd.

Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Merida Industry Co., Ltd. (the Corporation), which comprise the balance sheets as of December 31, 2018 and 2017, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the 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 financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion based on our audits and the report of other auditors.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the 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 Corporation's financial statements for the year ended December 31, 2018 are as follows:

Impairment assessment of trade receivables

As of December 31, 2018, the Corporation's total trade receivables was NT$2,746,858 thousand. Refer to Notes 4, 5 and 8 to the accompanying financial statements for disclosures related to receivables. The Corporation sells its products to different markets through the distributors from each country. 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 such as delayed payments from distributors, and also involves the estimation of future cash flows by management. The impairment assessment is subject to management's judgment, which has a significant level of uncertainty, and the result of the assessment could also affect the financial statements. Thus, the impairment assessment of trade receivables was identified as a key audit matter.

Our main audit procedures performed in respect of the above-mentioned key audit matter included the following:

1. We understood the policy and assessed the evidence of the impairment assessment of trade receivables.

2. We evaluated the major distributor’s credit policy and the rationality of the credit line as well as the historical payment situation.

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

4. We 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, 2018, the Corporation’s inventory was NT$1,621,689 thousand. Refer to Notes 4, 5 and 9 to the financial statements for disclosures related to inventory. Inventories are stated at the lower of cost or net realizable value. As the determination of the net realizable value inputs and estimation of the consumption of inventory aging is subject to estimation and judgment, inventory valuation was identified as a key audit matter.

Our main audit procedures performed in respect of the above-mentioned key audit matter were as follows:

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

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

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

4. We 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 some of the investees accounted for using the equity method as of and for the years ended December 31, 2018 and 2017, but such financial statements were audited by other auditors, whose reports have been furnished to us. The balance of the investments accounted for using the equity method was NT$9,415,791 thousand and NT$8,423,339 thousand, accounting for 46% and 45% of the Corporation’s total assets as of December 31, 2018 and 2017, respectively. The share of profit (loss) of associates was NT$1,034,660 thousand and NT$(86,042) thousand, accounting for 59% and (44%) of the Corporation’s total comprehensive income for the years ended December 31, 2018 and 2017, respectively.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Corporation'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 Corporation'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 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 Corporation to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the 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 financial statements for the year ended December 31, 2018 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
Taipei, Taiwan
Republic of China

March 22, 2019

Notice to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.

MERIDA INDUSTRY CO., LTD.

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2018 Amount	%	December 31, 2017 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 1,341,802	7	$ 1,268,102	7
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	499,695	2	442,093	2
Notes receivable (Notes 4, 5 and 20)	16,528	-	29,306	-
Trade receivables (Notes 4, 5, 8 and 20)	117,410	1	98,989	-
Trade receivables from related parties (Notes 4, 5, 8, 20 and 26)	2,629,448	13	1,856,483	10
Other receivables (Note 26)	93,433	-	107,084	1
Inventories (Notes 4, 5 and 9)	1,621,689	8	1,442,153	8
Other current assets	3,060	-	3,690	-
Total current assets	6,323,065	31	5,247,900	28
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 10)	92,620	-	-	-
Available-for-sale financial assets - non-current (Notes 4 and 11)	-	-	151,081	1
Financial assets measured at cost - non-current (Notes 4 and 12)	-	-	92,620	1
Investments accounted for using the equity method (Notes 4 and 13)	12,923,527	63	12,039,211	64
Property, plant and equipment (Notes 4 and 14)	1,033,651	5	1,058,757	6
Investment properties (Notes 4 and 15)	35,971	-	36,538	-
Deferred tax assets (Notes 4 and 22)	140,661	1	77,807	-
Prepayments for equipment	39,116	-	15,090	-
Other non-current assets	3,835	-	5,482	-
Total non-current assets	14,269,381	69	13,476,586	72
TOTAL	$ 20,592,446	100	$ 18,724,486	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank loans (Note 16)	$ 739,553	4	$ 731,242	4
Trade payables	3,477,443	17	3,583,756	19
Trade payables to related parties (Note 26)	181,800	1	116,925	1
Other payables (Note 17)	458,080	2	346,765	2
Current tax liabilities (Notes 4 and 22)	251,677	1	145,091	1
Other current liabilities - others	34,423	-	79,915	-
Total current liabilities	5,142,976	25	5,003,694	27
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 22)	2,455,737	12	1,921,704	10
Net defined benefit liabilities (Notes 4 and 18)	172,722	1	158,629	1
Guarantee deposits received	2	-	255	-
Investments accounted for using the equity method - credit (Notes 4 and 13)	68,833	-	55,029	-
Total non-current liabilities	2,697,294	13	2,135,617	11
Total liabilities	7,840,270	38	7,139,311	38
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Common shares	2,989,838	15	2,989,838	16
Capital surplus				
Share premiums from issuance of common shares	416,290	2	416,290	2
Capital surplus from investments accounted for using the equity method	258	-	258	-
Retained earnings				
Legal reserve	2,311,849	11	2,232,113	12
Special reserve	807,624	4	264,429	1
Unappropriated earnings	6,995,807	34	6,489,871	35
Other equity	(769,490)	(4)	(807,624)	(4)
Total equity	12,752,176	62	11,585,175	62
TOTAL	$ 20,592,446	100	$ 18,724,486	100

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

(With Deloitte & Touche auditors’ report dated March 22, 2019)

MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
SALES (Notes 4, 20 and 26)	$ 22,795,595	100	$ 18,213,043	100
COST OF GOODS SOLD (Notes 9, 21 and 26)	20,428,043	90	16,469,520	90
GROSS PROFIT	2,367,552	10	1,743,523	10
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	(244,350)	(1)	81,727	-
REALIZED GROSS PROFIT	2,123,202	9	1,825,250	10
OPERATING EXPENSES (Notes 21 and 26)				
Selling and marketing expenses	606,005	2	601,937	3
General and administrative expenses	206,608	1	132,070	1
Total operating expenses	812,613	3	734,007	4
PROFIT FROM OPERATIONS	1,310,589	6	1,091,243	6
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 26)	44,455	-	34,394	-
Technical service and royalty income (Note 26)	41,954	-	65,144	-
Other income	40,643	-	18,897	-
Gains on disposal of investments (Note 4)	-	-	16,589	-
Net foreign exchange gains (losses) (Note 4)	124,183	-	(38,546)	-
Share of profit (loss) of subsidiaries and associates (Note 4)	1,059,001	5	(161,861)	(1)
Interest expense	(8,626)	-	(6,227)	-
Other expenses (Note 21)	(29,437)	-	(31,895)	-
Gain (loss) on fair value changes of financial assets at fair value through profit or loss (Note 4)	(30,716)	-	1,165	-
Total non-operating income and expenses	1,241,457	5	(102,340)	(1)
PROFIT BEFORE INCOME TAX	2,552,046	11	988,903	5
INCOME TAX EXPENSE (Notes 4 and 22)	843,211	3	191,542	1
NET PROFIT FOR THE YEAR	1,708,835	8	797,361	4

(Continued)

MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31			
	2018		2017	
	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 18)	$ (10,732)	-	$ (71,246)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	4,240	-	12,111	-
	(6,492)	-	(59,135)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	62,626	-	(554,244)	(3)
Unrealized gain on available-for-sale financial assets	-	-	11,049	-
	62,626	-	(543,195)	(3)
Other comprehensive income (loss) for the year, net of income tax	56,134	-	(602,330)	(3)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,764,969	8	$ 195,031	1
EARNINGS PER SHARE (Note 23)				
Basic	$ 5.72		$ 2.67	
Diluted	$ 5.69		$ 2.66	

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

(With Deloitte & Touche auditors' report dated March 22, 2019) (Concluded)

MERIDA INDUSTRY CO., LTD.

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

	Common Shares	Capital Surplus (Note 19): Share Premium from Issuance of Common Shares	Capital Surplus (Note 19): Capital surplus from Investments Accounted for Using the Equity Method	Retained Earnings (Note 19): Legal Reserve	Retained Earnings (Note 19): Special Reserve	Retained Earnings (Note 19): Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total
BALANCE AT JANUARY 1, 2017	$ 2,989,838	$ 416,290	$ 215	$ 2,040,218	$ 17,462	$ 7,386,442	$ (277,872)	$ 13,443	$ 12,586,036
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)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	43	-	-	-	-	-	43
Net profit for the year ended December 31, 2017	-	-	-	-	-	797,361	-	-	797,361
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(59,135)	(554,244)	11,049	(602,330)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	738,226	(554,244)	11,049	195,031
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
Effect of retrospective application	-	-	-	-	-	24,492	-	(24,492)	-
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	2,989,838	416,290	258	2,232,113	264,429	6,514,363	(832,116)	-	11,585,175
Appropriation of 2017 earnings									
Legal reserve	-	-	-	79,736	-	(79,736)	-	-	-
Special reserve	-	-	-	-	543,195	(543,195)	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(597,968)	-	-	(597,968)
Net profit for the year ended December 31, 2018	-	-	-	-	-	1,708,835	-	-	1,708,835
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(6,492)	62,626	-	56,134
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	1,702,343	62,626	-	1,764,969
BALANCE AT DECEMBER 31, 2018	$ 2,989,838	$ 416,290	$ 258	$ 2,311,849	$ 807,624	$ 6,995,807	$ (769,490)	$ -	$ 12,752,176

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

(With Deloitte & Touche audit report dated March 22, 2019)

MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 2,552,046	$ 988,903
Adjustments for:		
Depreciation expenses	76,494	73,662
Amortization expenses	1,844	2,051
Expected credit loss recognized on trade receivables	6,780	-
Ne (gain) loss on fair value changes of financial assets at fair value through profit or loss	30,716	(1,165)
Interest expense	8,626	6,227
Interest income	(44,455)	(34,394)
Dividend income	(5,452)	(5,909)
Share of (profit) loss of associates	(1,059,001)	161,861
Loss on disposal of property, plant and equipment	654	1,119
Gain on disposal of investments	-	(16,589)
Reversal of write-downs of inventories	(12,213)	(7,937)
Unrealized (realized) gain on transactions with associates	244,350	(81,727)
Gain on foreign currency exchange	(527)	(6,535)
Changes in operating assets and liabilities		
Financial assets held for trading	-	(439,755)
Financial assets at fair value through profit or loss	62,763	-
Notes receivable	12,778	(6,906)
Trade receivables	(798,537)	133,517
Other receivables	18,821	41,118
Inventories	(167,323)	(137,959)
Other current assets	630	1,715
Trade payables	(36,708)	402,040
Other payables	110,705	(49,484)
Other current liabilities	(45,492)	(29,810)
Net defined benefit liabilities	3,361	(15,088)
Cash generated from operations	960,860	978,955
Interest received	41,051	40,892
Dividends received	12,217	15,789
Interest paid	(8,016)	(6,279)
Income tax paid	(261,206)	(304,594)
Net cash generated from operating activities	744,906	724,763
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	-	33,823
Acquisitions of associates	-	(10,598)
Payments for property, plant and equipment	(44,247)	(33,089)
Proceeds from disposal of property, plant and equipment	15	-
Increase in refundable deposits	(197)	(20)

(Continued)

MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31 2018	2017
Increase in other receivables from related parties	$ (1,766)	$ (14,759)
Increase in prepayments for equipment	(31,269)	(42,342)
Net cash used in investing activities	(77,464)	(66,985)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	4,479	99,109
Proceeds from guarantee deposits received	-	253
Refund of guarantee deposits received	(253)	-
Dividends paid to owners of the Corporation	(597,968)	(1,195,935)
Net cash used in financing activities	(593,742)	(1,096,573)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	73,700	(438,795)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,268,102	1,706,897
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,341,802	$ 1,268,102

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

(With Deloitte & Touche auditors' report dated March 22, 2019) (Concluded)

MERIDA INDUSTRY CO., LTD.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

The financial statements are presented in the Corporation’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation’s board of directors on March 22, 2019.

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 Financial Supervisory Commission (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 Corporation’s accounting policies:

1) IFRS 9 “Financial Instruments” and related amendments

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Corporation has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Corporation’s financial assets as of January 1, 2018.

Financial Assets	Measurement Category IAS 39	Measurement Category IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 1,268,102	$ 1,268,102
Equity securities	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	1,314	1,314
	Available-for-sale	Mandatorily at FVTPL	151,081	151,081
	Financial assets measured at cost	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	92,620	92,620
Mutual funds	Held-for-trading	Mandatorily at FVTPL	440,779	440,779
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	2,091,862	2,091,862
Refundable deposits	Loans and receivables	Amortized cost	2,779	2,779
			$ 4,048,537	$ 4,048,537

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Remark
FVTPL	$ 442,093				
Add: Reclassification from available-for-sale (IAS 39)					
Fair value option elected at January 1, 2018	-	$ 151,081	$ -		(a)
	442,093	151,081	-	$ 593,174	
FVTOCI					
Add: Remeasurement of financial assets measured at cost (IAS 39)	-	-	92,620		(a)
	-	-	92,620	92,620	
Amortized cost					
Add: Reclassification from loans and receivables (IAS 39)	-	3,362,743	-		(b)
	-	3,362,743	-	3,362,743	
	$ 442,093	$ 3,513,824	$ 92,620	$ 4,048,537	

a) The Corporation elected to classify all of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL under IFRS 9. As a result, the related other equity - unrealized gain on available-for-sale financial assets of $24,492 thousand was reclassified to retained earnings.

   Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value.

b) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

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

   IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for the related accounting policies.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	**Effective Date Announced by International Accounting Standards Board (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)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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: The Corporation 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.

Definition of a lease

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

The Corporation as lessee

Upon initial application of IFRS 16, the Corporation will recognize right-of-use assets or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Corporation will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Corporation anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Except for the following practical expedients which are to be applied, the Corporation will apply IAS 36 to all right-of-use assets.

The Corporation expects to apply the following practical expedients:

1) The Corporation will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Corporation will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Corporation will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

4) The Corporation will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

The Corporation as lessor

Except for sublease transactions, the Corporation will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets and liabilities

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases - current	$ 223	$ (51)	$ 172
Right-of-use assets	-	10,468	10,468
Total effect on assets	$ 223	$ 10,417	$ 10,640
Lease liabilities - current	$ -	$ 3,970	$ 3,970
Lease liabilities - non-current	-	6,447	6,447
Total effect on liabilities	$ -	$ 10,417	$ 10,417

Except for the above impacts, as of the date the financial statements were authorized for issue, the Corporation continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Corporation's financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

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

As of the date the financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation'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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations").

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing these parent company only financial statements, the Corporation used the equity method to account for its investments in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same as the amounts attributable to the owners of the Corporation in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries and associates, the share of other comprehensive income of subsidiaries and associates and the related equity items, as appropriate, in these parent company only financial statements.

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Corporation 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. Foreign currencies

In preparing the Corporation's financial statements, transactions in currencies other than the Corporation's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

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

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

In preparing the financial statements, assets and liabilities of the Corporation's foreign operations are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated into the New Taiwan dollar at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. 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.

f. Investments accounted for using the equity method

The Corporation uses the equity method to account for its investments in subsidiaries and associates.

1) Investments in subsidiaries

A subsidiary is an entity (including a structured entity) that is controlled by the Corporation.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the subsidiary. The Corporation also recognizes the changes in the Corporation's share of equity of subsidiaries.

Changes in the Corporation's ownership interest in a subsidiary that do not result in the Corporation losing control of the subsidiary are equity transactions. The Corporation recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Corporation's share of losses of a subsidiary exceeds its interest in that subsidiary (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 Corporation's net investment in the subsidiary), the Corporation continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets and liabilities of a subsidiary 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 Corporation's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Corporation assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Corporation recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Corporation.

2) Investments in associates

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

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognizes the changes in the Corporation's share of equity of associates.

Any excess of the cost of acquisition over the Corporation'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 Corporation'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 Corporation 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 Corporation's proportionate interest in the associate. The Corporation 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 Corporation'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 Corporation'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 Corporation's net investment in the associate), the Corporation discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

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

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

g. Property, plant, and equipment

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

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Costs include professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation of property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property, plant and equipment is shorter than its useful life, such asset is depreciated over its lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in the estimate accounted for on a prospective basis.

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

h. 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.

i. 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.

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation 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 or 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.

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

<u>2018</u>

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, 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 such a financial asset. Fair value is determined in the manner described in Note 25.

ii. Financial assets at amortized cost

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

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

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

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

iii. Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets and loans and receivables.

i. Financial assets at FVTPL

Financial assets at FVTPL 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 such a financial asset. Fair value is determined in the manner described in Note 25.

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 FVTPL.

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

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Corporation'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 and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented as 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 of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and trade receivables, other receivables and refundable deposits) 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 equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets and contract assets

<u>2018</u>

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

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

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

The Corporation recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

<u>2017</u>

Financial assets, other than those at FVTPL, 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, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets at amortized cost 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 Corporation's past experience with 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 at amortized cost, the amount of the impairment loss recognized is the difference between such an asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For a financial asset 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 on which the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For 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.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to impairment is recognized in other comprehensive income.

For a financial asset 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 its 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 the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are 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 uncollectible trade receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Corporation 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.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

3) Derivative financial instruments

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

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

l. Revenue recognition

<u>2018</u>

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

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

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

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

<u>2017</u>

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 Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Corporation 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 Corporation; and

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

The Corporation 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 Corporation 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 Corporation 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.

m. 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 income or expense on a straight-line basis over the lease term.

n. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under the defined retirement benefit plans are determined using the projected unit credit method. Service costs and net interest on the net defined benefit liabilities are recognized as employee benefits expenses in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Net defined benefit liabilities represent the actual deficit in the Corporation’s defined benefit plans.

o. 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 on unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

2) Deferred tax

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation 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 Corporation 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 Corporation's accounting policies, management is required to make judgments, estimations, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

a. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables, investments in debt instruments, and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Corporation uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Corporation's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 8. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Corporation takes into consideration the estimation of the future cash flows of such assets. The amount of 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.

c. Write-down of inventories

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	$ 290	$ 282
Checking accounts and demand deposits	439,439	826,220
Cash equivalents		
Time deposits with original maturities of less than 3 months	902,073	441,600
	$ 1,341,802	$ 1,268,102
Time deposit interest rate per annum (%)	0.60-3.00	0.60-1.55

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
Financial assets		
Non-derivative financial assets		
Mutual funds	$ 380,169	$ 440,779
Domestic listed shares	119,526	1,314
Financial assets at FVTPL - current	$ 499,695	$ 442,093

8. TRADE RECEIVABLES

	December 31	
	2018	2017
Trade receivables	$ 2,753,638	$ 1,955,472
Less: Allowance for impairment loss	(6,780)	-
	$ 2,746,858	$ 1,955,472

In 2018

In principle, the payment term granted to customers is 90 days from the invoice date and D/A or O/A of 60 to 180 days. The Corporation 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 Corporation uses other publicly available financial information or its own trading records to rate its major customers. The Corporation's exposure and the credit ratings of its counterparties are continuously monitored.

In order to minimize credit risk, the management of the Corporation has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Corporation reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Corporation's credit risk was significantly reduced.

The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are referenced to the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. The provision for loss allowance based on past due status is not further distinguished according to the Corporation's different customer base.

The Corporation writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Corporation continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables of the Corporation.

December 31, 2018

	Not Past Due	Less than 3 months	Total
Expected credit loss rate	0%-0.5%	4%	
Gross carrying amount	$ 2,646,774	$ 106,864	$ 2,753,638
Loss allowance (Lifetime ECLs)	(2,432)	(4,348)	(6,780)
Amortized cost	$ 2,644,342	$ 102,516	$ 2,746,858

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

	2018
Balance at January 1, 2018 per IAS 39	$ -
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	-
Add: Net remeasurement of loss allowance	6,780
Balance at December 31, 2018	$ 6,780

In 2017

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 Corporation judges the creditworthiness of its customers via credit verifications and investigations to establish a quota for transactions. The Corporation trades with new customers 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
Not past due	$ 1,852,819
Less than 3 months	102,653
	$ 1,955,472

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 follows:

	December 31, 2017
Less than 3 months	$ 102,653

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

9. INVENTORIES

	December 31	
	2018	2017
Finished goods	$ 245,699	$ 242,283
Work in progress	508,490	518,835
Raw materials and supplies	808,085	623,507
Inventory in transit	59,415	57,528
	$ 1,621,689	$ 1,442,153

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $20,428,043 thousand and $16,469,520 thousand, respectively.

The cost of goods sold for the years ended December 31, 2018 and 2017 included reversals of inventory write-downs of $12,213 thousand and $7,937 thousand, respectively. Previous write-downs were actively reversed by the Corporation as a result of depleted inventory. The related amounts were reflected in the cost of goods sold.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018
Non-current	
Overseas unlisted shares	$ 89,220
Domestic unlisted shares	3,400
	$ 92,620

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Corporation's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3 and 12 for information relating to their reclassification and comparative information for 2017.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
Domestic investments	$ 151,081

In August 2014, the Corporation 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 trading on the Taipei Exchange since January 2, 2018.

12. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
Overseas unlisted shares	$ 89,220
Domestic unlisted shares	3,400
	$ 92,620

Management believed that the above unlisted equity investments held by the Corporation 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.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2018	2017
Investments in subsidiaries	$ 3,214,605	$ 3,318,991
Investments in associates	9,708,922	8,720,220
	$ 12,923,527	$ 12,039,211

a. Investments in subsidiaries

	December 31	
	2018	2017
Unlisted shares		
Merida International (B.V.I) Ltd. ("Merida B.V.I.")	$ 2,912,131	$ 3,027,287
Merida & Centurion Germany GmbH ("Merida & Centurion")	205,764	169,952
Merida Polska Sp.z.o.o ("Merida Polska")	66,334	82,716
Merida Bicycles Ltd. ("Merida U.K.")	30,376	39,036
	$ 3,214,605	$ 3,318,991
Investments accounted for using the equity method - credit		
Merida Benelux B.V. ("Merida Benelux")	$ 68,833	$ 55,029

The proportion of ownership and voting rights of investments in subsidiaries for the Corporation was as follows:

	December 31	
	2018	2017
Merida B.V.I.	100%	100%
Merida & Centurion	51%	51%
Merida Polska	74%	74%
Merida U.K.	81%	81%
Merida Benelux	60%	60%

Since Merida Benelux has been continuously suffering an operating loss, equity has been negative. The Corporation continuously supports this company and recognizes the company's share of loss and investments accounted for using the equity method - credit.

Except for Merida Benelux, all of the financial statements 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 Corporation's financial statements.

Refer to Table 7 "Information on Investees" following the Notes to Financial Statements for the nature of activities, principal place of business and country of incorporation of the Corporation's subsidiaries.

b. Investments in associates

	December 31	
	2018	2017
Unlisted shares		
Specialized Bicycle Components, Inc. ("SBC")	$ 9,415,791	$ 8,423,339
SAIL & SURF Produktion-und Handelsgesellschaft m.b.H. ("SAIL & SURF")	90,083	85,564
Merida Bikes SWE, S.A ("Merida Bikes SWE")	70,158	65,826
Miyata Cycle Co., Ltd. (" Miyata")	36,091	35,572
Merida Czech s.r.o ("Merida Czech")	33,892	34,670
Merida Slovakia s.r.o ("Merida Slovakia")	21,432	22,365
Stians Sport AS ("Stians")	18,117	30,351
Merida Korea Inc. ("Merida Korea")	12,820	11,203
Merida Italy S.r.l ("Merida Italy")	6,219	7,339
WideDoctor (International) Enterprise Co., Ltd. ("WideDoctor")	4,319	3,991
	$ 9,708,922	$ 8,720,220

The Corporation's proportion of ownership and voting rights of investments in associates was as follows:

	December 31	
	2018	2017
SBC	35%	35%
SAIL & SURF	40%	40%
Merida Bikes SWE	36%	36%
Miyata	45%	45%
Merida Czech	45%	45%
Merida Slovakia	30%	30%
Stians	34%	34%
Merida Korea	40%	40%
Merida Italy	27%	27%
WideDoctor	26%	26%

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

Merida Italy increased its capital in cash in February 2017, but the Corporation 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 Financial Statements for the nature of activities, principal place of business and country of incorporation of the Corporation's associates.

The aggregate financial information of associates is as follows:

	For the Year Ended December 31	
	2018	2017
The Corporation's share of:		
Profit (loss) for the year	$ 1,066,133	$ (65,398)
Other comprehensive income (loss) for the year	(174,730)	176,327
Total comprehensive income for the year	$ 891,403	$ 110,929

Except for Merida Italy, Merida Korea, Merida Bikes SWE and WideDoctor for the year ended December 31, 2018 and Merida Italy and Merida Korea for the year ended December 31, 2017, investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. Management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of these associates which have not been audited.

14. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2018				
	Beginning Balance	Additions	Disposals	Reclassifi-cations	Ending Balance
Cost					
Land	$ 474,891	$ -	$ -	$ -	$ 474,891
Buildings and improvements	626,834	2,294	-	10,933	640,061
Machinery and equipment	246,487	16,341	(4,268)	4,660	263,220
Transportation equipment	2,722	-	(981)	607	2,348
Miscellaneous equipment	64,933	14,098	(38,139)	1,976	42,868
Construction in progress	3,618	11,514	-	(10,933)	4,199
	1,419,485	$ 44,247	$ (43,388)	$ 7,243	1,427,587
Accumulated depreciation					
Buildings and improvements	258,767	$ 25,497	$ -	$ -	284,264
Machinery and equipment	62,018	29,518	(3,824)	-	87,712
Transportation equipment	1,694	512	(981)	-	1,225
Miscellaneous equipment	38,249	20,400	(37,914)	-	20,735
	360,728	$ 75,927	$ (42,719)	$ -	393,936
	$ 1,058,757				$ 1,033,651

	For the Year Ended December 31, 2017				
	Beginning Balance	Additions	Disposals	Reclassifi-cations	Ending Balance
Cost					
Land	$ 474,891	$ -	$ -	$ -	$ 474,891
Buildings and improvements	540,637	-	-	86,197	626,834
Machinery and equipment	129,451	10,923	(6,464)	112,577	246,487
Transportation equipment	2,896	-	(174)	-	2,722
Miscellaneous equipment	82,728	14,952	(32,747)	-	64,933
Construction in progress	82,601	7,214	-	(86,197)	3,618
	1,313,204	$ 33,089	$ (39,385)	$ 112,577	1,419,485
Accumulated depreciation					
Buildings and improvements	234,842	$ 23,925	$ -	$ -	258,767
Machinery and equipment	52,915	14,849	(5,746)	-	62,018
Transportation equipment	1,300	568	(174)	-	1,694
Miscellaneous equipment	36,843	33,752	(32,346)	-	38,249
	325,900	$ 73,094	$ (38,266)	$ -	360,728
	$ 987,304				$ 1,058,757

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

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

15. INVESTMENT PROPERTIES

	December 31	
	2018	2017
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	(18,336)	(17,769)
	$ 35,971	$ 36,538

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

Buildings	55 years
Parking garages	49 years

The fair value of investment properties for the years ended December 31, 2018 and 2017 was $48,000 thousand and $41,935 thousand, respectively. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

16. SHORT-TERM BANK BORROWINGS

These refer to letters of credit due 180 days after acceptance. The range of annual interest rates on bank loans was no higher than 3.47% and 2.14% as of December 31, 2018 and 2017, respectively.

17. OTHER PAYABLES

	December 31	
	2018	2017
Payables for compensation to employees	$ 167,530	$ 88,492
Payables for salaries and bonuses	97,243	93,288
Payables for remuneration of directors and supervisors	72,597	28,760
Others	120,710	136,225
	$ 458,080	$ 346,765

18. 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.

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 contributes 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 Corporation’s defined benefit plan were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	$ 654,877	$ 651,149
Fair value of plan assets	(482,155)	(492,520)
Net defined benefit liabilities	$ 172,722	$ 158,629

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2017	$ 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

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
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
Service costs			
Current service costs	9,887	-	9,887
Net interest expense (income)	7,985	(6,059)	1,926
Recognized in profit or loss	17,872	(6,059)	11,813
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(13,863)	(13,863)
Actuarial loss - changes in demographic assumptions	3,654	-	3,654
Actuarial loss - experience adjustments	20,941	-	20,941
Recognized in other comprehensive income	24,595	(13,863)	10,732
Contributions from the employer	-	(8,452)	(8,452)
Benefits paid	(38,739)	38,739	-
Balance at December 31, 2018	$ 654,877	$ (482,155)	$ 172,722

(Concluded)

Through the defined benefit plan under the Labor Standards Law, the Corporation is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2018	2017
Discount rate(s)	1.25%	1.25%
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	
	2018	2017
Discount rate(s)		
0.50% increase	$ (26,995)	$ (31,819)
0.50% decrease	$ 28,871	$ 34,288
Expected rate(s) of salary increase		
0.50% increase	$ 28,518	$ 33,865
0.50% decrease	$ (26,939)	$ (31,752)

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	
	2018	2017
Expected contributions to the plans for the next year	$ 7,932	$ 9,163
Average duration of the defined benefit obligation	8.6 years	10.2 years

19. EQUITY

a. Common shares

	December 31	
	2018	2017
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 the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition) and donations may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

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

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors 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 current year. In addition, cash dividends distributed should be at least 10% of the total dividends distributed.

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

Items referred to under Rule No. 1010012865 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Corporation.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings in June 2018 and 2017, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2017	**2016**	**2017**	**2016**
Legal reserve	$ 79,736	$ 191,895		
Special reserve	543,195	246,967		
Cash dividends	597,968	1,195,935	$ 2.0	$ 4.0

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors on March 22, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 170,884	
Reversed special reserve	(38,135)	
Cash dividends	1,046,443	$ 3.5

The appropriation of earnings for 2018 are subject to the resolution of the shareholders in the shareholders' meetings to be held on June 25, 2019.

20. REVENUE

	For the Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from sale of goods	$ 22,795,595	$ 18,213,043

a. Contract balances

	December 31, 2018
Notes and trade receivables (Note 8)	$ 2,763,386

b. Disaggregation of revenue

Refer to Statement 9 in the Contents of Statements of Major Accounting Items for information about disaggregation of revenue.

21. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION AND AMORTIZATION EXPENSES

	Operating Costs	Operating Expenses	Non-Operating Expenses	Total
For the Year Ended December 31, 2018				
Short-term employee benefits				
Salary Expenses	$ 641,617	$ 178,800	$ 13,256	$ 833,673
Labor and health insurance costs	45,561	8,555	1,692	55,808
Post-employment benefits				
Defined contribution plans	12,238	2,168	682	15,088
Defined benefit plan	9,344	2,328	141	11,813
Remuneration of directors	-	72,012	-	72,012
Other employee benefits	27,931	2,263	308	30,502
Depreciation expenses	56,562	19,365	567	76,494
Amortization expenses	-	1,844	-	1,844
For the Year Ended December 31, 2017				
Short-term employee benefits				
Salary Expenses	548,666	129,035	13,575	691,276
Labor and health insurance costs	41,973	9,294	1,952	53,219
Post-employment benefits				
Defined contribution plans	10,805	2,094	637	13,536
Defined benefit plan	8,966	2,159	243	11,368
Remuneration of directors	-	28,662	-	28,662
Other employee benefits	23,410	398	267	24,075
Depreciation expenses	40,933	32,161	568	73,662
Amortization expenses	-	2,051	-	2,051

As of December 31, 2018 and 2017, the Corporation had 1,087 and 1,038 employees, respectively. Among them, the number of directors not serving as employees are 7 and 6 respectively; the basis of calculation is the same as the employee benefits expenses.

Employees' compensation and remuneration of directors and supervisors

According to the Corporation's Articles of Incorporation, 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, 2018 and 2017, which were approved by the Corporation's board of directors on March 22, 2019 and March 27, 2018, respectively, are as follows:

	For the Year Ended December 31			
	2018		2017	
Cash	**Accrual Rate**	**Amount**	**Accrual Rate**	**Amount**
Employees' compensation	6%	$ 167,530	8%	$ 88,492
Remuneration of directors and supervisors	2.6%	72,597	2.6%	28,760

If there is a change in the amounts after the annual 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 financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2019 and 2018 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	
	2018	2017
Current tax		
In respect of the current year	$ 349,723	$ 181,893
Income tax on unappropriated earnings	-	30,428
Adjustments for prior years	18,069	(2,897)
	367,792	209,424
Deferred tax		
In respect of the current year	165,743	(17,882)
Adjustments to deferred tax attributable to changes in tax rates and laws	309,676	-
	475,419	(17,882)
Income tax expense recognized in profit or loss	$ 843,211	$ 191,542

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

	For the Year Ended December 31	
	2018	**2017**
Income tax expense calculated at the statutory rate	$ 510,409	$ 168,114
Nondeductible expenses in determining taxable income	70	25
Tax-exempt income	4,987	(4,128)
Income tax on unappropriated earnings	-	30,428
Adjustments for prior years' tax	18,069	(2,897)
Effect of tax rate changes	309,676	-
Income tax expense recognized in profit or loss	$ 843,211	$ 191,542

In 2017, the tax rate applicable to the Corporation was 17%. However, the Income Tax Act in the ROC was amended in February 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Current liabilities

	December 31	
	2018	**2017**
Current tax liabilities		
Income tax payable	$ 251,677	$ 145,091

c. Changes in deferred tax assets and liabilities

	For the Year Ended December 31, 2018			
	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Closing Balance**
Deferred tax assets				
Temporary differences				
Unrealized intercompany profit	$ 37,383	$ 55,467	$ -	$ 92,850
Defined benefit obligation	24,271	2,739	4,240	31,250
Unrealized impairment loss on assets	10,623	1,875	-	12,498
Unrealized provision for loss on inventory	5,530	(1,467)	-	4,063
	$ 77,807	$ 58,614	$ 4,240	$ 140,661

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Temporary differences				
Investments accounted for using the equity method	$ 1,819,972	$ 531,554	$ -	$ 2,351,526
Reserve for land revaluation increment tax	100,934	-	-	100,934
Unrealized foreign currency exchange gains	798	2,479	-	3,277
	$ 1,921,704	$ 534,033	$ -	$ 2,455,737

	For the Year Ended December 31, 2017			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized intercompany profit	$ 51,276	$ (13,893)	$ -	$ 37,383
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
	$ 84,356	$ (18,660)	$ 12,111	$ 77,807
Deferred tax liabilities				
Temporary differences				
Investments accounted for using the 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

d. Income tax assessments

The income tax returns of the Corporation through 2016, except 2015, 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, 2018			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	$ 1,708,835	298,983,800	$ 5.72
Effect of potentially dilutive common shares:			
Employees' compensation	-	1,371,300	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	$ 1,708,835	300,355,100	$ 5.69
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

If the Corporation offered to settle compensation paid to employees in cash or shares, the Corporation 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. CAPITAL MANAGEMENT

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

Key management personnel of the Corporation 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 Corporation 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.

25. FINANCIAL INSTRUMENTS

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

Except for the fair value of financial assets measured at cost as of December 31, 2017 that cannot be reliably measured, the carrying amounts of the Corporation'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 Corporation's financial assets at FVTPL, financial assets at FVTOCT and available-for-sale financial assets of December 31, 2017 are measured at fair value using Level 1 inputs.

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

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

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

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	$ 499,695	$ -
Held for trading	-	442,093
Loans and receivables	-	3,362,743
Available-for-sale financial assets	-	151,081
Financial assets measured at cost	-	92,620
Financial assets at amortized cost	4,201,597	-
Financial assets at FVTOCI - equity instruments	92,620	-
Financial liabilities		
Financial liabilities at amortized cost	4,856,878	4,778,943

The balances of financial assets listed in the table above include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and trade receivable, other receivables and refundable deposits.

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

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

d. Financial risk management objectives and policies

The Corporation's major financial instruments include equity investments, trade receivables, trade payables and borrowings. The Corporation'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 Corporation through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

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

a) Foreign currency risk

The Corporation has foreign currency sales and purchases, which exposes the Corporation to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

The carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 28.

Sensitivity analysis

The Corporation was mainly exposed to the USD.

Assuming a 1% increase in the NTD against the USD, the pre-tax profit for the years ended December 31, 2018 and 2017 would have decreased by $27,654 thousand and $15,199 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, 2018 and 2017.

b) Interest rate risk

The Corporation is exposed to interest rate risk because the Corporation borrowed funds at both fixed and floating interest rates.

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

	December 31	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 902,073	$ 441,600
Financial liabilities	328,277	393,987

	December 31	
	2018	2017
Cash flow interest rate risk		
Financial assets	$ 439,439	$ 826,195
Financial liabilities	411,276	337,255

Sensitivity analysis

The sensitivity analysis was determined based on the Corporation'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 Corporation's pre-tax profit for the years ended December 31, 2018 and 2017 would have increased by $70 thousand and $1,222 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 Corporation. As at the end of the reporting period, the Corporation's maximum exposure to credit risk which would cause a financial loss to the Corporation due to the failure of counterparties to discharge an obligation and financial guarantees provided by the Corporation could arise from:

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

b) The maximum amount the Corporation would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Corporation's concentration of credit risk was mainly from the top 2 customers, which together accounted for 57% and 48% of the total trade receivables as of December 31, 2018 and 2017, respectively.

3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Corporation'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 Corporation relies on bank borrowings as a significant source of liquidity. As of December 31, 2018 and 2017, the Corporation had available unutilized bank loan facilities of $4,229,024 thousand and $4,073,792 thousand, respectively.

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

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

	On Demand or Less Than 1 Year	1-2 Years	2+ Years
December 31, 2018			
Non-interest bearing liabilities	$ 4,117,323	$ -	$ -
Variable interest rate liabilities	411,276	-	-
Fixed interest rate liabilities	328,277	-	-
Financial guarantee liabilities	459,882	107,503	7,678
	$ 5,316,758	$ 107,503	$ 7,678
December 31, 2017			
Non-interest bearing liabilities	$ 4,047,446	$ -	$ -
Variable interest rate liabilities	337,255	-	-
Fixed interest rate liabilities	393,987	-	-
Financial guarantee liabilities	431,656	104,160	111,600
	$ 5,210,344	$ 104,160	$ 111,600

The amounts included above for financial guarantee contracts are the maximum amounts the Corporation could be required to settle under the arrangement with an option to demand the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Corporation considers that it is more likely than not that no amount will be payable under the arrangement.

26. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Corporation and other related parties are disclosed below.

a. Related Party Categories / Names

Related Party	Relationship with the Corporation
Merida Polska	Subsidiary
Merida Benelux	Subsidiary
Merida & Centurion	Subsidiary
Merida U.K.	Subsidiary
Merida International (SAMOA) Ltd. (“Merida SAMOA”)	Subsidiary
Merida Industry (Hong Kong) Co., Ltd. (“Merida Hong Kong”)	Subsidiary
Merida Bicycle (China) Co., Ltd. (“Merida China”)	Subsidiary
Merida Bicycle (Shandong) Co., Ltd. (“Merida Shandong”)	Subsidiary
Merida Bicycle (Jiangsu) Ltd. (“Merida Jiangsu”)	Subsidiary
Merida Europe GmbH	Subsidiary

(Continued)

Related Party	Relationship with the Corporation
Merida R&D Center GmbH	Subsidiary
SBC Group	Associate
SAIL & SURF	Associate
Merida Bikes SWE	Associate
Miyata	Associate
Stians	Associate
Merida Sverige AB	Associate
Merida Czech	Associate
Merida Slovakia	Associate
Merida Korea	Associate
Merida Italy	Associate
Wide Doctor	Associate
Rai Bi Bicycle Co., Ltd.	Other
Cheng Shin Rubber Industry Co., Ltd. (“Cheng Shin”)	Other
Cheng Shin Rubber (Xiamen) Ind., Ltd. (“Cheng Shin (Xiamen)”)	Other

(Concluded)

b. Sales of goods

Related Party Category/Name	For the Year Ended December 31 2018	2017
Associates		
SBC Group	$ 16,442,542	$ 13,664,688
Others	2,461,930	1,684,984
	18,904,472	15,349,672
Subsidiaries	2,085,282	1,460,400
Others	2,402	2,404
	$ 20,992,156	$ 16,812,476

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

c. Purchase of goods

Related Party Category	For the Year Ended December 31 2018	2017
Subsidiaries	$ 1,160,117	$ 326,295
Others	102,098	80,766
Associates	173	360
	$ 1,262,388	$ 407,421

The purchase price is quoted based on market prices.

d. Receivables from related parties

Related Party Category/Name	December 31 2018	2017
Trade receivables		
Associates		
SBC Group	$ 1,324,192	$ 698,556
Others	641,388	542,251
	1,965,580	1,240,807
Subsidiaries		
Merida & Centurion	235,494	245,418
Others	428,374	370,258
	663,868	615,676
	$ 2,629,448	$ 1,856,483
Other receivables		
Subsidiaries		
Merida China	$ 27,304	$ 41,024
Merida Polska	24,926	23,160
Others	12,319	21,043
	64,549	85,227
Associates	7,262	3,220
Others	185	218
	$ 71,996	$ 88,665

The aging of receivables from related parties that were past due at the end of the reporting period was as follows (accounted for as other receivables)

	Less than 6 Months	6 Months to 1 Year	Over 1 Year	Total
December 31, 2018				
Subsidiaries				
Merida Polska	$ 19,167	$ 5,759	$ -	$ 24,926
December 31, 2017				
Subsidiaries				
Merida Polska	$ 23,160	$ -	$ -	$ 23,160

e. Payables to related parties

Related Party Category	December 31 2018	December 31 2017
Trade payables		
Subsidiaries	$ 154,265	$ 88,010
Others	27,518	28,765
Associates	17	150
	$ 181,800	$ 116,925

f. Other transactions with related parties

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

Related Party Category	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Subsidiaries	$ 144,474	$ 129,855
Associates	3,219	4,103
	$ 147,693	$ 133,958

2) Interest income

Related Party Category/Name	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Subsidiaries		
Merida Benelux	$ 6,977	$ 3,895
Merida & Centurion	4,003	7,862
Others	1,263	-
	12,243	11,757
Associates		
Merida Czech	7,836	4,389
Others	8,370	5,101
	16,206	9,490
	$ 28,449	$ 21,247

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

3) Trademark franchise and technical service revenue

Related Party Category/Name	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Subsidiaries		
Merida China	$ 33,068	$ 47,784
Merida Shandong	6,948	8,272
Merida Jiangsu	1,938	9,088
	$ 41,954	$ 65,144

The Corporation entered into trademark licensing contracts with Merida China and Merida Shandong for agreement to label registered trademarks which were licensed to these companies for the bikes and electric bikes they manufacture and sell. The Corporation calculates and charges royalties for 3% of these companies' annual domestic net sales each year. Furthermore, the Corporation respectively entered into technical service contracts with Merida China, Merida Jiangsu and Merida Shandong to transfer production and management techniques to these companies. The Corporation charges technical service income at 1% of the net sales amount for each company individually every year.

g. Endorsements and guarantees

Related Party Category/Name	Item Endorsed	Amount Endorsed	
December 31, 2018			
Subsidiaries	Standby letter of credit	EUR	3,000
	Bank borrowings	EUR	3,500
	Bank borrowings	USD	25,750
	Bank borrowings	GBP	4,000
December 31, 2017			
Subsidiaries	Standby letter of credit	EUR	3,000
	Bank borrowings	USD	3,500
	Bank borrowings	USD	14,250
	Bank borrowings	GBP	4,000

Refer to Table 2 "Financing provided to others" for the actual borrowing amount of subsidiaries.

f. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 109,833	$ 55,490
Post-employment benefits	491	481
	$ 110,324	$ 55,971

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

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2018 and 2017 were as follows:

a. As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials amounted to approximately $667,609 thousand and $736,090 thousand, respectively.

b. Unrecognized commitments are as follows:

	December 31	
	2018	2017
Acquisition of property, plant and equipment	$ 12,929	$ 31,323

c. Product liability insurance

The Corporation purchased product liability insurance over the products manufactured by the Corporation and its subsidiaries. The insured amount of the sales in USA and Canada is US$4,000 thousand and it covers accidents happening after September 18, 2000. The maximum indemnity claims for the single original cause of a liability is US$3,000 thousand. The insured amount for sales, other than those within the USA and Canada, is US$1,000 thousand, and covers accidents happening after January 17, 1999. The maximum indemnity claims for the single original cause of a liability is US$1,000 thousand.

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Corporation's 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, 2018			December 31, 2017		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
Financial assets						
Monetary items						
USD	$ 120,457	30.715	$ 3,699,839	$ 85,517	29.76	$ 2,545,000
JPY	666,346	0.2782	185,377	360,647	0.2642	95,283
Non-monetary items						
Investments accounted for using the equity method						
USD	396,080	30.715	12,165,606	374,473	29.76	11,144,328
EUR	13,444	35.20	473,244	9,246	35.57	328,866
JPY	137,344	0.2782	38,209	131,732	0.2642	34,804
POL	10,262	8.142	83,554	10,444	8.5235	89,016
Financial liabilities						
Monetary items						
USD	30,424	30.715	934,464	34,445	29.76	1,025,083
JPY	2,029,088	0.2782	564,492	1,954,312	0.2642	516,329

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2018		2017	
Foreign Currency	Exchange Rate	Net Foreign Exchange Gain	Exchange Rate	Net Foreign Exchange Gain
USD	30.715	$ 3,304	29.76	$ (1,325)
JPY	0.2782	(2,920)	0.2642	7,318
EUR	35.20	249	35.57	590
CHF	31.185	(106)	30.455	(48)
		$ 527		$ 6,535

29. 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 or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital. (Table 4)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital. (None)

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

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 6)

9) Trading in derivative instruments.

   The Corporation has no outstanding forward contract as of December 31, 2018 and 2017. The net profit from trading in derivative instruments is $566 thousand in 2018.

10) 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 5)

   b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 5)

   c) The amount of property transactions and the amount of the resultant gains or losses. (None)

   d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the year and their purposes. (Table 2)

   e) The highest balance, the end of year balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)

   f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual 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	$ 30,638	$ 30,638	$ 24,926	6.48	Business relationship	$ 198,375	-	$ -	-	$ -	$ 4,891,815 (Note 1)	$ 4,891,815 (Note 1)
		Merida Italy	Other receivables from related parties	Yes	35,949	-	-	4	Business relationship	278,290	-	-	-	-	9,680 (Note 2)	4,891,815 (Note 1)
1	Merida Shandong	Merida Jiangsu	Other receivables from related parties	Yes	RMB 50,000	RMB 50,000	RMB 7,500	2.325	For short-term financing needs	-	Operating capital	-	-	-	RMB 72,465 (Note 3)	RMB 72,465 (Note 3)

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

Note 2: 50% of the capital of Merida Italy.

Note 3: 40% of the net assets of Merida Shandong in their financial statements for the previous year.

TABLE 2

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity In Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given On Behalf of Companies in Mainland China
		Name	Relationship										
0	The Corporation	Merida U.K.	Subsidiary	$ 3,475,553	EUR 500 GBP 4,000	EUR 500 GBP 4,000	$ - GBP 3,993	$ -	1.42	$ 5,792,588	Yes	-	-
		Merida & Centurion	Subsidiary	3,475,553	EUR 6,000	EUR 6,000	EUR 5,600	-	1.73	5,792,588	Yes	-	-
		Merida Jiangsu	Indirectly owned subsidiary	3,475,553	USD 25,750	USD 25,750	USD 7,250	-	6.46	5,792,588	Yes	-	Yes

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

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

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018			
				Number of Shares (In Thousands)	Carrying Amount	Percentage of Ownership %	Fair Value
The Corporation	Mutual funds						
	Franklin Templeton Sinoam Money Market Fund (Note)	-	Financial assets at FVTPL - current	8,722	$ 90,022	-	$ 90,022
	Mega Diamond Money Market Fund (Note)	-	Financial assets at FVTPL - current	7,992	100,070	-	100,070
	Yuanta Wan Tai Money Market Fund (Note)	-	Financial assets at FVTPL - current	6,615	100,058	-	100,058
	Cathay Taiwan Money Market Fund (Note)	-	Financial assets at FVTPL - current	7,243	90,019	-	90,019
	Share capital						
	Leechi Enterprises Co., Ltd. (Note)	-	Financial assets at FVTPL - current	113	1,116	-	1,116
	Cheng Shin (Note)	Corporation’s chairman is their director	Financial assets at FVTPL - current	1,146	46,807	-	46,807
	Kuei Meng (Note)	-	Financial assets at FVTPL - current	734	71,603	-	71,603
	Merida Benelux	-	Financial assets at FVTOCI - non-current	2,749	89,220	-	89,220
	SR Suntour Inc.	-	Financial assets at FVTOCI - non-current	110	3,000	-	3,000
	Taifong Golf Course	-	Financial assets at FVTOCI - non-current	30	400	-	400
	Long Jee Holdings Pte. Ltd.	-	Financial assets at FVTOCI - non-current	330	-	2	-

Note: Publicly listed securities are measured at their closing market prices on the balance sheet date as of December 31, 2018. Mutual funds are measured at the net asset value on the balance sheet date as of December 31, 2018.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Shares and Units)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
The Corporation	Franklin Templeton Sinoam Money Market Fund	Financial assets at FVTPL - current	-	-	15,608	$ 160,349 (Note)	23,281	$ 240,000	30,167	$ 310,985	$ 310,000	$ 985	8,722	$ 90,022 (Note)
	Mega Diamond Money Market Fund	Financial assets at FVTPL - current	-	-	8,039	100,212 (Note)	27,996	350,000	28,043	350,787	350,000	787	7,992	100,070 (Note)

Note: The net asset values are measured as of the balance sheet date at December 31, 2018.

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, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivables (Payables)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	SBC Group	Investment accounted for using the equity method	Sale	$ (16,442,542)	(72)	O/A 60 days	$ -	-	$ 1,324,192	48	
	Merida & Centurion	Subsidiary	Sale	(1,130,528)	(5)	D/A or O/A 150 days	-	-	235,494	9	
	Merida Bikes SWE	Investment accounted for using the equity method	Sale	(446,951)	(2)	T/T 14 days or D/A 60-120 days	-	-	37,300	1	
	Stians	Investment accounted for using the equity method	Sale	(397,944)	(2)	T/T 14 days or D/A 120 days	-	-	101,994	4	
	SAIL & SURF	Investment accounted for using the equity method	Sale	(383,498)	(2)	T/T 14 days or D/A 180 days	-	-	28,004	1	
	Merida Benelux	Subsidiary	Sale	(354,673)	(2)	O/A 180 days	-	-	182,775	7	
	Miyata	Investment accounted for using the equity method	Sale	(305,402)	(1)	O/A 90 days	-	-	82,822	3	
	Merida Italy	Investment accounted for using the equity method	Sale	(278,290)	(1)	D/A 90 days	-	-	173,871	6	
	Merida Korea	Investment accounted for using the equity method	Sale	(258,623)	(1)	O/A 120days	-	-	67,397	2	
	Merida Polska	Subsidiary	Sale	(198,375)	(1)	O/A 150 days	-	-	174,657	6	
	Merida Czech	Investment accounted for using the equity method	Sale	(196,363)	(1)	D/A 150 days	-	-	105,118	4	
	Merida U.K.	Subsidiary	Sale	(195,127)	(1)	O/A 60 days	-	-	70,942	3	
	Merida slovakia	Investment accounted for using the equity method	Sale	(102,606)	-	D/A 150 days	-	-	40,378	1	
	Merida China	Indirectly-owned subsidiary	Sale	(206,579)	(1)	T/T 90 days	-	-	-	-	
			Purchase	560,297	3	T/T 90 days	-	-	(91,335)	(2)	
	Merida Jiangsu	Indirectly-owned subsidiary	Purchase	534,884	3	T/T 90 days	-	-	(56,436)	(2)	
Merida Shandong	Merida China	Associate	Sale	RMB (126,938)	(92)	T/T 90 days	-	-	RMB 6,142	79	

TABLE 6

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, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Company Name	Related Party	Relationship	Financial Statement Account	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
						Amount	Actions Taken		
The Corporation	SBC Group	Investment accounted for using the equity method	Trade receivables from related parties	$ 1,324,192	16.26	$ -	-	$ 1,319,921	$ -
	Merida & Centurion	Subsidiary	Trade receivables from related parties	235,494	4.70	-	-	23	-
			Other receivables from related parties	1,335	-	-	-	-	-
	Merida Benelux	Subsidiary	Trade receivables from related parties	182,775	2.23	-	-	48,474	-
			Other receivables from related parties	3,655	-	-	-	969	-
	Merida Polska	Subsidiary	Trade receivables from related parties	174,657	1.36	-	-	-	-
			Other receivables from related parties	24,926	-	24,926	Continued collection	11,517	-
	Merida Italy	Investment accounted for using the equity method	Trade receivables from related parties	173,871	1.66	-	-	55,386	3,156
	Merida Czech	Investment accounted for using the equity method	Trade receivables from related parties	105,118	2.37	-	-	69,210	118
			Other receivables from related parties	4,209	-	-	-	2,768	-
	Stians	Investment accounted for using the equity method	Trade receivables from related parties	101,994	5.60	-	-	57,832	50
			Other receivables from related parties	1,270	-	-	-	386	-

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017	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	$ 9,415,791	USD 96,982	$ 1,034,660	
	Merida B.V.I.	British Virgin Islands	International investment	1,362,597	1,362,597	42,500	100	2,912,131	USD (2,846)	(83,716)	Subsidiary
	Merida & Centurion	Stuttgart, Germany	Sale of bicycles	31,713	31,713	-	51	205,764	EUR 4,204	76,343	Subsidiary
	Merida Polska	Gliwice, Poland	Sale of bicycles and bicycle components	113,170	113,170	-	74	66,334	PLN (245)	(1,517)	Subsidiary
	Stians	Lysaker, Norway	Sale of bicycles	29,780	29,780	34	34	18,117	NOK (6,954)	(8,767)	
	SAIL & SURF	Strobl, Austria	Sale of bicycles	116,195	116,195	-	40	90,083	EUR 714	10,170	
	Merida Czech	Brno, Czech Republic	Sale of bicycles	21,042	21,042	-	45	33,892	CZK 8,030	5,017	
	Merida Bikes SWE	Madrid, Spain	Sale of bicycles	18,646	18,646	1	36	70,158	EUR 1,325	17,153	
	WideDoctor	Changhua, Taiwan	Marketing of daily necessities	16,900	16,900	690	26	4,319	$ 1,285	328	
	Merida Slovakia	Partizanska, Slovakia	Sale of bicycles	40	40	-	30	21,432	EUR 123	1,313	
	Miyata	Tokyo, Japan	Sale of bicycles	79,913	79,913	1	45	36,091	JPY 12,471	1,532	
	Merida Italy	Reggio Emilia, Italy	Sale of bicycles	5,164	5,164	-	27	6,219	EUR 318	3,093	
	Merida Benelux	Beekbergen, Netherlands	Sale of bicycles	65,400	65,400	766	60	(68,833)	EUR (23)	(492)	Subsidiary
	Merida U.K.	Nottingham, United Kingdom	Sale of bicycles	40,309	40,309	482	81	30,376	GBP 69	2,250	Subsidiary
	Merida Korea	Seoul, Republic of Korea	Sale of bicycles	10,598	10,598	77	40	12,820	KRW 147,947	1,634	
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 74,296	HKD (478)	(Note)	Indirectly owned subsidiary
	Merida SAMOA	Samoa	International investment	USD 24,500	USD 24,500	24,500	70	USD 20,055	USD (3,981)	(Note)	Indirectly owned subsidiary
Merida & Centurion	Share capital										
	Merida Europe GmbH	Stuttgart, Germany	Brand promotion and cycling team management	EUR 25	EUR 25	-	100	EUR 720	EUR 203	(Note)	Indirectly owned subsidiary
	Merida R&D Center GmbH	Stuttgart, Germany	Design and development of bicycles	EUR 25	EUR 25	-	100	EUR 254	EUR 125	(Note)	Indirectly owned subsidiary

Note: Not applicable.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2018 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Merida China	Manufacture and sale of bicycles	$ 377,180 (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	$ 340,537 (USD 11,087)	$ -	$ -	$ 340,537 (USD 11,087)	$ 1,005	100	$ 1,005	$ 972,713	$ 1,373,176 (USD 44,707)
Merida Shandong	Manufacture and sale of e-bikes and bicycles	491,440 (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	491,440 (USD 16,000)	-	-	491,440 (USD 16,000)	(16,277)	100	(16,277)	794,446	796,225 (USD 25,923)
Merida Jiangsu	Manufacture and sale of bicycles	1,075,025 (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	506,798 (USD 16,500)	-	-	506,798 (USD 16,500)	(121,994)	70	(85,396)	584,316	-

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2018	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by the Investment Commission, MOEA
$ 1,338,775 (USD 43,587)	$ 1,404,136 (USD 45,715) (Note 2)	$ 7,966,210 (Note 3)

Note 1: The investment gain (loss) and carrying amount as of December 31, 2018 are recognized according to the financial statements audited by the Corporation’s independent auditors.

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

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

Merida Industry Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 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, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as prepared in conformity with International Financial Reporting Standard 10 "Consolidated Financial Statements". The information required to be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Consequently, Merida Industry Co., Ltd. and subsidiaries did not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

MERIDA INDUSTRY CO., LTD.

By:

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Michael S. T. Tseng
President

March 22, 2019

勤業眾信

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2018. 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, 2018 are as follows:

Impairment assessment of trade receivables

As of December 31, 2018, the Group's total trade receivables was NT$2,416,105 thousand. Refer to Notes 4, 5 and 8 to the accompanying consolidated financial statements for disclosures related to receivables. The Group sells its products to different markets through the distributors from each country. 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 such as delayed payments from distributors, and also involves the estimation of future cash flows by management. The impairment assessment is subject to management's judgment, which has a significant level of uncertainty, and the result of the assessment could also affect the consolidated financial statements. Thus, the impairment assessment of trade receivables was identified as a key audit matter.

Our main audit procedures performed in respect of the above-mentioned key audit matter included the following:

1. We understood the policy and assessed the evidence of the impairment assessment of trade receivables.

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

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

4. We 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.

Inventory valuation

As of December 31, 2018, the Group's inventory was NT$3,852,081 thousand. Refer to Notes 4, 5 and 9 to the consolidated financial statements for disclosures related to inventory. Inventories are stated at the lower of cost or net realizable value. As the determination of the net realizable value inputs and estimation of the consumption of inventory aging is subject to estimation and judgment, inventory valuation was identified as a key audit matter.

Our main audit procedures performed in respect of the above mentioned key audit matter were as follows:

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

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

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

4. We 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 some of the investees accounted for using the equity method as of and for the years ended December 31, 2018 and 2017, but such financial statements were audited by other auditors, whose reports have been furnished to us. The balance of the investments accounted for using the equity method was NT$9,415,791 thousand and NT$8,423,339 thousand, accounting for 41% and 40% of the Group's consolidated total assets as of December 31, 2018 and 2017, respectively. The share of profit (loss) of associates was NT$1,034,660 thousand and NT$(86,042) thousand, accounting for 58% and (43%) of the Group's consolidated comprehensive income for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 on which we have issued an unmodified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 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
Taipei, Taiwan
Republic of China

March 22, 2019

<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, 2018		December 31, 2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 3,220,019	14	$ 3,146,748	15
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	499,695	2	442,093	2
Notes receivable (Notes 4, 5 and 22)	16,528	-	29,306	-
Trade receivables (Notes 4, 5, 8 and 22)	450,525	2	349,382	2
Trade receivables from related parties (Notes 4, 5, 8, 22 and 28)	1,965,580	9	1,351,166	6
Other receivables (Notes 4 and 28)	72,981	-	62,913	-
Inventories (Notes 4, 5, 9 and 29)	3,852,081	17	3,496,676	17
Other current assets (Notes 4 and 17)	58,442	-	159,506	1
Total current assets	10,135,851	44	9,037,790	43
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 10)	3,400	-	-	-
Available-for-sale financial assets - non-current (Notes 4 and 11)	-	-	151,081	1
Financial assets measured at cost - non-current (Notes 4 and 12)	-	-	3,400	-
Investments accounted for using the equity method (Notes 4 and 14)	9,708,922	43	8,720,220	42
Property, plant and equipment (Notes 4, 15 and 29)	2,342,984	10	2,515,796	12
Investment properties (Notes 4 and 16)	35,971	-	36,538	-
Intangible assets (Note 4)	40,685	-	39,411	-
Deferred tax assets (Notes 4 and 24)	140,661	1	77,807	-
Prepayments for equipment	39,116	-	18,580	-
Long-term prepayments for leases (Notes 4 and 17)	323,335	2	337,301	2
Other non-current assets	7,182	-	7,622	-
Total non-current assets	12,642,256	56	11,907,756	57
TOTAL	$ 22,778,107	100	$ 20,945,546	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank loans (Notes 18 and 29)	$ 1,645,786	7	$ 1,456,407	7
Trade payables	3,798,676	17	3,934,696	19
Trade payables to related parties (Note 28)	41,710	-	45,695	-
Other payables (Note 19)	775,282	3	738,960	3
Current tax liabilities (Notes 4 and 24)	274,560	1	149,022	1
Current portion of long-term bank loans (Notes 18 and 29)	111,955	1	108,223	-
Other current liabilities - others	92,624	1	116,323	1
Total current liabilities	6,740,593	30	6,549,326	31
NON-CURRENT LIABILITIES				
Long-term bank loans (Notes 18 and 29)	125,744	-	227,294	1
Deferred tax liabilities (Notes 4 and 24)	2,455,737	11	1,921,704	9
Net defined benefit liabilities (Notes 4 and 20)	172,722	1	158,629	1
Guarantee deposits received	6,294	-	7,219	-
Total non-current liabilities	2,760,497	12	2,314,846	11
Total liabilities	9,501,090	42	8,864,172	42
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Common shares	2,989,838	13	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 the equity method	258	-	258	-
Retained earnings				
Legal reserve	2,311,849	10	2,232,113	11
Special reserve	807,624	3	264,429	1
Unappropriated earnings	6,995,807	31	6,489,871	31
Other equity	(769,490)	(3)	(807,624)	(4)
Total equity attributable to owners of the Corporation	12,752,176	56	11,585,175	55
NON-CONTROLLING INTERESTS	524,841	2	496,199	3
Total equity	13,277,017	58	12,081,374	58
TOTAL	$ 22,778,107	100	$ 20,945,546	100

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

(With Deloitte & Touche auditors' report dated March 22, 2019)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2018		2017	
	Amount	%	Amount	%
SALES (Notes 4, 22 and 28)	$ 25,852,942	100	$ 22,396,174	100
COST OF GOODS SOLD (Notes 9, 23 and 28)	22,463,953	87	19,715,439	88
GROSS PROFIT	3,388,989	13	2,680,735	12
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH ASSOCIATES	(170,760)	(1)	81,895	1
REALIZED GROSS PROFIT	3,218,229	12	2,762,630	13
OPERATING EXPENSES (Note 23)				
Selling and marketing expenses (Note 28)	1,058,674	4	1,086,962	5
General and administrative expenses	808,275	3	646,842	3
Total operating expenses	1,866,949	7	1,733,804	8
PROFIT FROM OPERATIONS	1,351,280	5	1,028,826	5
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 28)	61,878	-	40,758	-
Other income	102,985	-	123,248	-
Gains on disposal of investments (Note 4)	-	-	16,589	-
Net foreign exchange gains (losses) (Note 4)	175,345	1	(63,455)	-
Share of profit (loss) of associates (Note 4)	1,066,133	4	(65,398)	-
Interest expense	(50,987)	-	(27,040)	-
Other expenses	(54,263)	-	(18,619)	-
Gain (loss) on fair value changes of financial assets at fair value through profit or loss (Note 4)	(30,716)	-	1,165	-
Total non-operating income and expenses	1,270,375	5	7,248	-
PROFIT BEFORE INCOME TAX	2,621,655	10	1,036,074	5
INCOME TAX EXPENSE (Notes 4 and 24)	875,818	3	237,600	1
NET PROFIT FOR THE YEAR	1,745,837	7	798,474	4

(Continued)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2018		2017	
	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 20)	$ (10,732)	-	$ (71,246)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 24)	4,240	-	12,111	-
	(6,492)	-	(59,135)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	54,266	-	(550,104)	(3)
Unrealized gain on available-for-sale financial assets	-	-	11,049	-
	54,266	-	(539,055)	(3)
Other comprehensive income (loss) for the year, net of income tax	47,774	-	(598,190)	(3)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,793,611	7	$ 200,284	1
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	$ 1,708,835	7	$ 797,361	4
Non-controlling interests	37,002	-	1,113	-
	$ 1,745,837	7	$ 798,474	4
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	$ 1,764,969	7	$ 195,031	1
Non-controlling interests	28,642	-	5,253	-
	$ 1,793,611	7	$ 200,284	1
EARNINGS PER SHARE (Note 25)				
Basic	$ 5.72		$ 2.67	
Diluted	$ 5.69		$ 2.66	

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

(With Deloitte & Touche auditors' report dated March 22, 2019) (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 21)		Retained Earnings (Note 21)							
	Common Shares (Note 21)	Share Premium from Issuance of Common Shares	Capital Surplus from Investments Accounted for Using the Equity Method	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total	Non-controlling Interests	Total
BALANCE AT JANUARY 1, 2017	$ 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
Effect of retrospective application	-	-	-	-	-	24,492	-	(24,492)	-	-	-
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	2,989,838	416,290	258	2,232,113	264,429	6,514,363	(832,116)	-	11,585,175	496,199	12,081,374
Appropriation of 2017 earnings											
Legal reserve	-	-	-	79,736	-	(79,736)	-	-	-	-	-
Special reserve	-	-	-	-	543,195	(543,195)	-	-	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(597,968)	-	-	(597,968)	-	(597,968)
Net profit for the year ended December 31, 2018	-	-	-	-	-	1,708,835	-	-	1,708,835	37,002	1,745,837
Other comprehensive income for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(6,492)	62,626	-	56,134	(8,360)	47,774
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	1,702,343	62,626	-	1,764,969	28,642	1,793,611
BALANCE AT DECEMBER 31, 2018	$ 2,989,838	$ 416,290	$ 258	$ 2,311,849	$ 807,624	$ 6,995,807	$ (769,490)	$ -	$ 12,752,176	$ 524,841	$ 13,277,017

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

(With Deloitte & Touche auditors' report dated March 22, 2019)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 2,621,655	$ 1,036,074
Adjustments for:		
Depreciation expenses	241,764	243,019
Amortization expenses	9,086	9,666
Expected credit loss recognized on trade receivables	7,237	-
Recognition of provisions	-	3,365
Net (gain) loss on fair value changes of financial assets at fair value through profit or loss	30,716	(1,165)
Interest expense	50,987	27,040
Interest income	(61,878)	(40,758)
Dividend income	(5,452)	(5,909)
Share of (profit) loss of associates	(1,066,133)	65,398
Loss on disposal of property, plant and equipment	3,127	2,575
Gain on disposal of investments	-	(16,589)
Reversal of write-downs of inventories	(18,577)	(8,236)
Unrealized (realized) gain on transactions with associates	170,760	(81,895)
Net (gain) loss on foreign currency exchange	12,086	(28,984)
Amortization of long-term prepayments for leases	8,217	8,119
Changes in operating assets and liabilities		
Financial assets held for trading	-	(439,755)
Financial assets at fair value through profit or loss	62,763	-
Notes receivable	12,778	(6,906)
Trade receivables	(723,672)	(58,185)
Other receivables	(6,740)	(1,210)
Inventories	(346,908)	(259,425)
Other current assets	102,388	(67,289)
Trade payables	(129,151)	345,801
Other payables	34,190	(46,448)
Other current liabilities	(23,434)	(63,994)
Net defined benefit liabilities	3,361	(15,088)
Cash generated from operations	989,170	599,221
Interest received	58,321	42,632
Dividends received	12,217	15,789
Interest paid	(49,212)	(26,496)
Income tax paid	(274,569)	(325,203)
Net cash generated from operating activities	735,927	305,943
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
Acquisitions of associates	-	(10,598)

(Continued)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2018	**2017**
Payments for property, plant and equipment	$ (91,460)	$ (95,974)
Proceeds from disposal of property, plant and equipment	7,060	3,003
Decrease in refundable deposits	42	200
Payments for intangible assets	(10,879)	(4,584)
Decrease in other non-current assets	444	2,246
Increase in prepayments for equipment	(31,269)	(45,788)
Net cash used in investing activities	(126,062)	(74,115)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	187,900	334,789
Proceeds from long-term borrowings	15,672	16,146
Repayments of long-term bank loans	(121,621)	(107,894)
Refund of guarantee deposits received	(1,131)	(593)
Dividends paid to owners of the Corporation	(597,968)	(1,195,935)
Net cash used in financing activities	(517,148)	(953,487)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(19,446)	(40,117)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	73,271	(761,776)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,146,748	3,908,524
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 3,220,019	$ 3,146,748

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

(With Deloitte & Touche auditors’ report dated March 22, 2019) (Concluded)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on March 22, 2019.

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

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

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:

1) IFRS 9 “Financial Instruments” and related amendments

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

<u>Classification, measurement and impairment of financial assets</u>

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Group’s financial assets as of January 1, 2018.

Financial Assets	Measurement Category IAS 39	IFRS 9	Carrying Amount IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 3,146,748	$ 3,146,748
Equity securities	Held-for-trading	Mandatorily at fair value through profit or loss (i.e. FVTPL)	1,314	1,314
	Available-for-sale	Mandatorily at FVTPL	151,081	151,081
	Financial assets measured at cost	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	3,400	3,400
Mutual funds	Held-for-trading	Mandatorily at FVTPL	440,779	440,779
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	1,792,767	1,792,767
Refundable deposits	Loans and receivables	Amortized cost	6,056	6,056
			$ 5,542,145	$ 5,542,145

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Remark
FVTPL	$ 442,093				
Add: Reclassification from available-for-sale (IAS 39)					
Fair value option elected at January 1, 2018	-	$ 151,081	$ -		(a)
	442,093	151,081	-	$ 593,174	
FVTOCI					
Add: Remeasurement of financial assets at cost	-	-	3,400		(a)
	-	-	3,400	3,400	
Amortized cost					
Add: Reclassification from loans and receivables (IAS 39)	-	4,945,571	-		(b)
	-	4,945,571	-	4,945,571	
	$ 442,093	$ 5,096,652	$ 3,400	$ 5,542,145	

a) The Group elected to classify all of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL under IFRS 9. As a result, the related other equity - unrealized gain on available-for-sale financial assets of $24,492 thousand was reclassified to retained earnings.

Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value.

b) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for the related accounting policies.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by International Accounting Standards Board (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)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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: 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.

Definition of a lease

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

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, are recognized as expenses on a straight-line basis. Prepaid lease payments for land use right of land located in People's Republic of China are recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. Except for the following practical expedients which are to be applied, the Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

4) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

For leases currently classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 will be determined as at the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

The Group as lessor

Except for sublease transactions, the Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets and liabilities

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Prepayments for leases - current	$ 16,963	$ (10,928)	$ 6,035
Long-term prepayments for leases	323,335	(323,335)	-
Right-of-use assets	-	451,563	451,563
Total effect on assets	$ 340,298	$ 117,300	$ 457,598
Lease liabilities - current	$ -	$ 29,792	$ 29,792
Lease liabilities - non-current	-	87,508	87,508
Total effect on liabilities	$ -	$ 117,300	$ 117,300

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that the application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance and will disclose these other impacts when the assessment is completed.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

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

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Basis of consolidation

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

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

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

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

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

See Note 13, and Tables 8 and 9 following the Notes to Consolidated Financial Statements for detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

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

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

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. Investments in associates

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

The Group uses the equity method to account for its investments in associates.

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

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

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

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

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

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

h. Property, plant, and equipment

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

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Costs include professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended uses.

Depreciation of property, plant and equipment (including assets held under finance leases) is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property, plant and equipment is shorter than its useful life, such asset is depreciated over its lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in the estimate accounted for on a prospective basis.

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

i. Investment properties

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

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

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

j. Goodwill

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

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

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

k. Intangible assets

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

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

l. Impairment of 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 the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement categories

2018

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, 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 such a financial asset. Fair value is determined in the manner described in Note 27.

ii. Financial assets at amortized cost

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

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, note receivables, trade receivables, other receivables and refundable deposits at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

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

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

iii. Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets and loans and receivables.

i. Financial assets at FVTPL

Financial assets at FVTPL 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 such a financial asset. Fair value is determined in the manner described in Note 27.

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 FVTPL.

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

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented as 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 of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and trade receivables, other receivables and refundable deposits) 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 equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets and contract assets

2018

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

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

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

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

2017

Financial assets, other than those at FVTPL, 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, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

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

For a financial asset 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 on which the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For 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.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to impairment is recognized in other comprehensive income.

For a financial asset 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 its 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 the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are 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 uncollectible trade 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.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

3) Derivative financial instruments

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

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

n. Revenue recognition

<u>2018</u>

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

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

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

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

<u>2017</u>

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 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 services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under the defined retirement benefit plans are determined using the projected unit credit method. Service costs and net interest on the net defined benefit liabilities are recognized as employee benefits expenses in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Net defined benefit liabilities represent the actual deficit in the Group's defined benefit plans.

q. Taxation

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

1) Current tax

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

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

2) Deferred tax

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

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

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

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

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

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The 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 financial assets - 2018

The provision for impairment of trade receivables, investments in debt instruments, and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group’s historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 8. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. The amount of 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.

c. Write-down of inventories

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash on hand	$ 2,369	$ 2,366
Checking accounts and demand deposits	1,433,251	2,044,681
Cash equivalents		
Time deposits with original maturities of less than 3 months	1,784,399	1,099,701
	$ 3,220,019	$ 3,146,748
Time deposit interest rate per annum (%)	0.60-3.00	0.20-2.02

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
Financial assets		
Non-derivative financial assets		
Mutual funds	$ 380,169	$ 440,779
Domestic listed shares	119,526	1,314
Financial assets at FVTPL - current	$ 499,695	$ 442,093

8. TRADE RECEIVABLES

	December 31	
	2018	2017
Trade receivables	$ 2,440,168	$ 1,718,114
Less: Allowance for impairment loss	(24,063)	(17,566)
	$ 2,416,105	$ 1,700,548

In 2018

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

In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group’s credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are referenced to past default experience of the debtor and an analysis of the debtor’s current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. The provision for loss allowance based on past due status is not further distinguished according to the Group’s different customer base.

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

The following table details the loss allowance of trade receivables of the Group.

December 31, 2018

	Not Past Due	Less than 3 months	Total
Expected credit loss rate	0%-2%	4%	
Gross carrying amount	$ 2,333,304	$ 106,864	$ 2,440,168
Loss allowance (Lifetime ECLs)	(19,715)	(4,348)	(24,063)
Amortized cost	$ 2,313,589	$ 102,516	$ 2,416,105

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

	2018
Balance at January 1, 2018 per IAS 39	$ 17,566
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	17,566
Add: Net remeasurement of loss allowance	7,237
Less: Amounts written off	(342)
Foreign exchange gains and losses	(398)
Balance at December 31, 2018	$ 24,063

In 2017

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 customers 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
Not past due	$ 1,639,058
Less than 3 months	79,056
	$ 1,718,114

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 follows:

	December 31, 2017
Less than 3 months	$ 79,056

The above aging schedule was based on the number of past due days from 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:

	2017
Balance at January 1	$ 13,272
Add: Impairment losses recognized on receivables	3,365
Foreign exchange translation gains and losses	929
Balance at December 31	$ 17,566

9. INVENTORIES

	December 31	
	2018	2017
Finished goods	$ 2,274,798	$ 2,033,131
Work in progress	562,935	598,276
Raw materials and supplies	954,355	802,121
Inventory in transit	59,993	63,148
	$ 3,852,081	$ 3,496,676

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $22,463,953 thousand and $19,715,439 thousand, respectively.

The cost of goods sold for the years ended December 31, 2018 and 2017 included reversals of inventory write-downs of $18,577 thousand and $8,236 thousand, respectively. Previous write-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 borrowings are set out in Note 29.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018
Non-current	
Domestic unlisted ordinary shares	$ 3,400

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3 and 12 for information relating to their reclassification and comparative information for 2017.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
Domestic investments	$ 151,081

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 trading on the Taipei Exchange since January 2, 2018.

12. FINANCIAL ASSETS MEASURED AT COST – NON-CURRENT-2017

	December 31, 2017
Domestic investments	$ 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.

13. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

		Proportion of Ownership (%)	
		December 31	
Investor	Investee	2018	2017
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 Tables 8 and 9 following the Notes to Consolidated Financial Statements for information on the place of incorporation and principal places of business for each subsidiary.

Except for Merida Benelux, all of the financial statements 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

Name of Subsidiary	Proportion of Ownership and Voting Rights Held by Non-controlling Interests December 31 2018	2017
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 2018	2017
Current assets	$ 451,531	$ 546,747
Non-current assets	1,071,512	1,180,089
Current liabilities	(526,472)	(496,604)
Non-current liabilities	(116,600)	(217,198)
Equity	$ 879,971	$ 1,013,034
Equity attributable to:		
Owners of Merida SAMOA	$ 615,980	$ 709,124
Non-controlling interests of Merida SAMOA	263,991	303,910
	$ 879,971	$ 1,013,034

	For the Year Ended December 31 2018	2017
Revenue	$ 741,984	$ 981,997
Net loss for the year	$ (120,017)	$ (71,926)
Other comprehensive income (loss) for the year	(42,504)	59,417
Total comprehensive loss for the year	$ (162,521)	$ (12,509)
Loss attributable to:		
Owners of Merida SAMOA	$ (84,012)	$ (50,348)
Non-controlling interests of Merida SAMOA	(36,005)	(21,578)
	$ (120,017)	$ (71,926)
Total comprehensive loss attributable to:		
Owners of Merida SAMOA	$ (113,765)	$ (8,756)
Non-controlling interests of Merida SAMOA	(48,756)	(3,753)
	$ (162,521)	$ (12,509)

	For the Year Ended December 31	
	2018	2017
Net cash outflow from:		
Operating activities	$ (32,422)	$ (41,292)
Investing activities	35	(684)
Financing activities	10,400	(34,387)
Net cash outflow	$ (21,987)	$ (76,363)

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2018	2017
Unlisted shares		
Specialized Bicycle Components, Inc. (“SBC”)	$ 9,415,791	$ 8,423,339
SAIL & SURF Produktion-und Handelsgesellschaft m.b.H.		85,564
(“SAIL & SURF”)	90,083	
Merida Bikes SWE, S.A (“Merida Bikes SWE”)	70,158	65,826
Miyata Cycle Co., Ltd. (” Miyata”)	36,091	35,572
Merida Czech s.r.o (“Merida Czech”)	33,892	34,670
Merida Slovakia s.r.o (“Merida Slovakia”)	21,432	22,365
Stians Sport AS (“Stians”)	18,117	30,351
Merida Korea Inc. (“Merida Korea”)	12,820	11,203
Merida Italy S.r.l (“Merida Italy”)	6,219	7,339
WideDoctor (International) Enterprise Co., Ltd. (“WideDoctor”)	4,319	3,991
	$ 9,708,922	$ 8,720,220

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

	December 31	
	2018	2017
SBC	35%	35%
SAIL & SURF	40%	40%
Merida Bikes SWE	36%	36%
Miyata	45%	45%
Merida Czech	45%	45%
Merida Slovakia	30%	30%
Stians	34%	34%
Merida Korea	40%	40%
Merida Italy	27%	27%
WideDoctor	26%	26%

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

Merida Italy increased its capital in 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 8 "Information on Investees" following the Notes to Consolidated Financial Statements for the nature of activities, principal place of business and country of incorporation of the Group's associates.

The aggregate financial information of associates is as follows:

	For the Year Ended December 31	
	2018	2017
The Group's share of:		
Profit (loss) for the year	$ 1,066,133	$ (65,398)
Other comprehensive income (loss) for the year	(174,730)	176,327
Total comprehensive income for the year	$ 891,403	$ 110,929

Except for Merida Italy, Merida Korea, Merida Bikes SWE and WideDoctor for the year ended December 31, 2018 and Merida Italy and Merida Korea for the year ended December 31, 2017, investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. Management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of these associates which have not been audited.

15. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2018					
	Beginning Balance	Additions	Disposals	Reclassifi-cations	Effect of foreign currency exchange difference	Ending Balance
Cost						
Land	$ 475,759	$ -	$ -	$ -	$ (39)	$ 475,720
Buildings and improvements	2,169,314	28,335	(5,983)	10,933	(27,268)	2,175,331
Machinery and equipment	1,226,223	25,792	(39,435)	8,147	(18,180)	1,202,547
Transportation equipment	26,767	2,559	(3,435)	607	(672)	25,826
Miscellaneous equipment	245,640	23,260	(65,783)	1,976	(3,318)	201,775
Construction in progress	3,618	11,514	-	(10,933)	-	4,199
	4,147,321	$ 91,460	$ (114,636)	$ 10,730	$ (49,477)	4,085,398
Accumulated depreciation						
Buildings and improvements	816,091	$ 96,576	$ (5,566)	$ -	$ (11,202)	895,899
Machinery and equipment	618,401	102,939	(31,474)	-	(11,615)	678,251
Transportation equipment	18,070	3,092	(3,103)	-	(441)	17,618
Miscellaneous equipment	178,963	38,590	(64,306)	-	(2,601)	150,646
	1,631,525	$ 241,197	$ (104,449)	$ -	$ (25,859)	1,742,414
	$ 2,515,796					$ 2,342,984

	For the Year Ended December 31, 2017					
	Beginning Balance	Additions	Disposals	Reclassifi-cations	Effect of foreign currency exchange difference	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
Accumulated depreciation						
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

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

Buildings and improvements	
Main buildings	20-60 years
Ancillary work	5-50 years
Machinery and equipment	3-15 years
Transportation equipment	4-6 years
Miscellaneous equipment	3-15 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 29.

16. INVESTMENT PROPERTIES

	December 31	
	2018	2017
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	(18,336)	(17,769)
	$ 35,971	$ 36,538

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

Buildings	55 years
Parking garages	49 years

The fair value of investment properties for the years ended December 31, 2018 and 2017 was $48,000 thousand and $41,935 thousand, respectively. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

17. PREPAYMENTS FOR LEASES

Merida China prepaid RMB10,389 thousand and RMB620 thousand to acquire the right to use land in 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 the right to 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 is used for constructing buildings, offices and living facilities, etc.

18. BORROWINGS

a. Short-term bank borrowings

	December 31	
	2018	**2017**
Line of credit borrowings	$ 888,476	$ 716,307
Letters of credit - due after 180 days of acceptance	739,553	731,242
Secured borrowings (Note 29)	17,757	8,858
	$ 1,645,786	$ 1,456,407
Rate of interest rates per annum (%)		
Line of credit borrowings	0.90-5.00	0.90-5.13
Letters of credit	No more than 3.47	No more than 2.14
Secured borrowings	2.55-3.80	2.56-4.84

b. Long-term bank borrowings

	December 31	
	2018	2017
Unsecured loans		
Bank loans (1)	$ 222,677	$ 319,834
Secured loans		
Mortgaged loans (2)	15,022	15,683
	237,699	335,517
Less: Current portion	(111,955)	(108,223)
Long-term borrowings	$ 125,744	$ 227,294

1) Bank loan was due in September 2020. As of December 31, 2018 and 2017, the effective interest rate range of the bank loans was 2.46%-3.2% and 1.75%-2.46% per annum, respectively.

2) As of December 31, 2018 and 2017, the weighted average effective interest rate of the bank borrowings secured by the Group's freehold land, buildings and inventories (see Note 29) was 2.94% per annum and 3.61% per annum, respectively. Such loans are due in September and October 2021.

19. OTHER PAYABLES

	December 31	
	2018	2017
Payables for compensation to employees	$ 167,530	$ 88,492
Payables for salaries and bonus	136,501	151,894
Payables for remuneration of directors and supervisors	72,597	28,760
Others	398,654	469,814
	$ 775,282	$ 738,960

20. 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 these companies are not required to establish a retirement policy.

b. Defined benefit plans

The defined benefit plans adopted by the Corporation in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Corporation contribute amounts equal to 6% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Corporation has no right to influence the investment policy and strategy. According to the regulations for employees' retirement policy, the Corporation reserves 4% of monthly salaries and wages of appointed managers as an employee retirement reserve (recognized as net defined benefit liabilities).

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

	December 31	
	2018	**2017**
Present value of defined benefit obligation	$ 654,877	$ 651,149
Fair value of plan assets	(482,155)	(492,520)
Net defined benefit liabilities	$ 172,722	$ 158,629

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities**
Balance at January 1, 2017	$ 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
Service costs			
Current service costs	9,887	-	9,887
Net interest expense (income)	7,985	(6,059)	1,926
Recognized in profit or loss	17,872	(6,059)	11,813

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ (13,863)	$ (13,863)
Actuarial loss - changes in demographic assumption	3,654	-	3,654
Actuarial loss - experience adjustments	20,941	-	20,941
Recognized in other comprehensive income	24,595	(13,863)	10,732
Contributions from the employer	-	(8,452)	(8,452)
Benefits paid	(38,739)	38,739	-
Balance at December 31, 2018	$ 654,877	$ (482,155)	$ 172,722

(Concluded)

Through the defined benefit plan under the Labor Standards Law, the Corporation is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2018	**2017**
Discount rate(s)	1.25%	1.25%
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	
	2018	**2017**
Discount rate(s)		
0.50% increase	$ (26,995)	$ (31,819)
0.50% decrease	$ 28,871	$ 34,288

	December 31	
	2018	2017
Expected rate(s) of salary increase		
0.50% increase	$ 28,518	$ 33,865
0.50% decrease	$ (26,939)	$ (31,752)

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	
	2018	2017
Expected contributions to the plans for the next year	$ 7,932	$ 9,163
Average duration of the defined benefit obligation	8.6 years	10.2 years

21. EQUITY

a. Common shares

	December 31	
	2018	2017
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 the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition) and donations may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Corporation's capital surplus and once a year).

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

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to Note 23.

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

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

Items referred to under Rule No. 1010012865 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Corporation.

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings in June 2018 and 2017, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For the Year Ended December 31		**For the Year Ended December 31**	
	2017	**2016**	**2017**	**2016**
Legal reserve	$ 79,736	$ 191,895		
Special reserve	543,195	246,967		
Cash dividends	597,968	1,195,935	$ 2.0	$ 4.0

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors on March 22, 2019. The appropriations and dividend per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 170,884	
Reversed special reserve	(38,135)	
Cash dividends	1,046,443	$ 3.5

The appropriation of earnings for 2018 are subject to the resolution of the shareholders in the shareholders' meetings to be held on June 25, 2019.

22. REVENUE

	For the Year Ended December 31	
	2018	**2017**
Revenue from contracts with customers		
Revenue from sale of goods	$ 25,852,942	$ 22,396,174

a. Contract balances

	December 31, 2018
Notes and trade receivables (Note 8)	$ 2,432,633

b. Disaggregation of revenue

Refer to Note 33 for information about the disaggregation of revenue.

23. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION AND AMORTIZATION EXPENSES

	Operating Costs	Operating Expenses	Total
For the Year Ended December 31, 2018			
Short-term employee benefits	$ 940,076	$ 599,466	$ 1,539,542
Post-employment benefits			
Defined contribution plans	43,924	24,162	68,086
Defined benefit plan	9,344	2,469	11,813
Other employee benefits	33,604	92,796	126,400
Depreciation expenses	170,022	71,742	241,764
Amortization expenses	2	9,084	9,086
For the Year Ended December 31, 2017			
Short-term employee benefits	864,425	514,023	1,378,448
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

Employees' compensation and remuneration of directors and supervisors

According to the Corporation's Articles of Incorporation, 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, 2018 and 2017, which have been approved by the Corporation's board of directors on March 22, 2019 and March 27, 2018, respectively, are as follows:

	For the Year Ended December 31			
	2018		2017	
Cash	Accrual Rate	Amount	Accrual Rate	Amount
Employees' compensation	6%	$ 167,530	8%	$ 88,492
Remuneration of directors and supervisors	2.6%	72,597	2.6%	28,760

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, 2017 and 2016.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the TWSE.

24. TAXES

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

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ 382,330	$ 199,276
Income tax on unappropriated earnings	-	30,428
Adjustments for prior years	18,069	(2,897)
	400,399	226,807
Deferred tax		
In respect of the current year	165,743	10,793
Adjustments to deferred tax attributable to changes in tax rates and laws	309,676	-
	475,419	10,793
Income tax expense recognized in profit or loss	$ 875,818	$ 237,600

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

	For the Year Ended December 31	
	2018	2017
Income tax expense calculated at the statutory rate	$ 508,700	$ 143,976
Nondeductible expenses in determining taxable income	4,393	10,759
Others	(1,172)	(11,814)
Tax-exempt income	4,987	(4,128)
Income tax on unappropriated earnings	-	30,428
Unrecognized deductible temporary differences	(2,928)	(2,341)
Unrecognized loss carryforwards	34,093	73,617
Adjustments for prior years' tax	18,069	(2,897)
Effect of tax rate changes	309,676	-
Income tax expense recognized in profit or loss	$ 875,818	$ 237,600

In 2017, the applicable corporate income tax rate used by the group entities in the ROC was 17%. However, the Income Tax Act in the ROC was amended in February 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Current tax liabilities

	December 31	
	2018	2017
Current tax liabilities		
Income tax payable	$ 274,560	$ 149,022

c. Changes in deferred tax assets and liabilities

	For the Year Ended December 31, 2018				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Unrealized intercompany profit	$ 37,383	$ 55,467	$ -	$ -	$ 92,850
Defined benefit obligation	24,271	2,739	4,240	-	31,250
Unrealized impairment loss on assets	10,623	1,875	-	-	12,498
Unrealized provision for loss on inventory	5,530	(1,467)	-	-	4,063
	$ 77,807	$ 58,614	$ 4,240	$ -	$ 140,661
Deferred tax liabilities					
Temporary differences					
Investments accounted for using the equity method	$ 1,819,972	$ 531,554	$ -	$ -	$ 2,351,526
Reserve for land revaluation increment tax	100,934	-	-	-	100,934
Unrealized foreign currency exchange gains	798	2,479	-	-	3,277
	$ 1,921,704	$ 534,033	$ -	$ -	$ 2,455,737

	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

(Continued)

	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 the 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

(Concluded)

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

	December 31	
	2018	2017
Loss carryforwards	$ 481,901	$ 354,714
Deductible temporary differences	48,369	62,573
	$ 530,270	$ 417,287

e. Income tax assessments

The income tax returns through 2016, except 2015, have been assessed by the tax authorities.

25. EARNINGS PER SHARE

	Net Profit Attributable to Owners of the Corporation	Number of Shares	Earnings Per Share (NT$)
For the Year Ended December 31, 2018			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	$ 1,708,835	298,983,800	$ 5.72
Effect of potentially dilutive common shares:			
Employees' compensation	-	1,371,300	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	$ 1,708,835	300,355,100	$ 5.69

	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

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.

26. 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.

27. FINANCIAL INSTRUMENTS

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

Except for the fair value of financial assets measured at cost as of December 31, 2017 that cannot be reliably measured, the carrying amounts of the Group's financial assets and liabilities that are not measured at fair value approximated their fair values.

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

1) The Group's financial assets at FVTPL, financial assets at FVTOCI and available-for-sale financial assets of December 31, 2017 are measured at fair value using Level 1 inputs.

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

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

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

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	$ 499,695	$ -
Held for trading	-	442,093
Loans and receivables	-	4,945,571
Available-for-sale financial assets	-	151,081
Financial assets measured at cost	-	3,400
Financial assets at amortized cost	5,731,748	-
Financial assets at FVTOCI - equity instruments	3,400	-
Financial liabilities		
Financial liabilities at amortized cost	6,505,447	6,518,494

The balances of financial assets listed in the table above include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and trade receivables, other receivables and refundable deposits.

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

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

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables 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 that analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

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

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

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 31.

Sensitivity analysis

The Group was mainly exposed to the USD.

Assuming a 1% increase in the NTD against the USD, the pre-tax profit for the years ended December 31, 2018 and 2017 would have decreased by $37,002 thousand and $23,161 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, 2018 and 2017.

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	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 1,784,399	$ 1,099,701
Financial liabilities	614,420	603,437
Cash flow interest rate risk		
Financial assets	1,433,251	2,044,656
Financial liabilities	1,269,065	1,188,487

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, 2018 and 2017 would have increased by $410 thousand and $2,140 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 maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Group's concentration of credit risk was mainly from customer A, which accounted for 54% and 45% of the total trade receivables as of December 31, 2018 and 2017, 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, 2018 and 2017, the Group had available unutilized bank loan facilities of $5,999,295 thousand and $5,350,952 thousand, respectively.

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

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

	On Demand or Less Than 1 Year	**1-2 Years**	**2+ Years**
December 31, 2018			
Non-interest bearing liabilities	$ 4,615,668	$ -	$ -
Variable interest rate liabilities	1,143,321	111,955	13,789
Fixed interest rate liabilities	614,420	-	-
	$ 6,373,409	$ 111,955	$ 13,789

	On Demand or Less Than 1 Year	1-2 Years	2+ Years
December 31, 2017			
Non-interest bearing liabilities	$ 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

28. 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 Group
SBC Group	Associate
SAIL & SURF	Associate
Merida Bikes SWE	Associate
Miyata	Associate
Stians	Associate
Merida Sverige AB	Associate
Merida Czech	Associate
Merida Slovakia	Associate
Merida Korea	Associate
Merida Italy	Associate
WideDoctor	Associate
Rai Bi Bicycle Co., Ltd.	Other
Cheng Shin Rubber Industry Co., Ltd. (“Cheng Shin”)	Other
Cheng Shin Rubber (Xiamen) Ind., Ltd. (“Cheng Shin (Xiamen)”)	Other
Tianjin Tafeng Rubber Industry Co., Ltd. (“Tianjin Tafeng”)	Other

b. Sales of goods

Related Party Category/Name	For the Year Ended December 31 2018	2017
Associates		
SBC Group	$ 16,541,791	$ 14,514,742
Others	2,498,715	1,817,752
	19,040,506	16,332,494
Others	2,421	2,404
	$ 19,042,927	$ 16,334,898

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

c. Purchase of goods

Related Party Category	For the Year Ended December 31 2018	2017
Others	$ 280,295	$ 265,122
Associates	173	360
	$ 280,468	$ 265,482

The purchase price is quoted based on market prices.

d. Receivables from related parties

Related Party Category/Name	December 31 2018	2017
Trade receivables		
Associates		
SBC Group	$ 1,324,192	$ 772,503
Others	641,388	578,663
	$ 1,965,580	$ 1,351,166
Other receivables		
Associates	$ 7,262	$ 3,263
Others	185	218
	$ 7,447	$ 3,481

e. Payables to related parties

Related Party Category	December 31 2018	2017
Trade payables		
Others	$ 41,693	$ 45,545
Associates	17	150
	$ 41,710	$ 45,695

f. Other transactions with related parties

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

Related Party Category	For the Year Ended December 31 2018	2017
Associates	$ 3,219	$ 4,103

2) Interest income

Related Party Category	For the Year Ended December 31 2018	2017
Associates		
Merida Czech	$ 7,836	$ 4,389
Others	8,386	5,277
	$ 16,222	$ 9,666

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

g. Compensation of key management personnel

	For the Year Ended December 31 2018	2017
Short-term employee benefits	$ 109,833	$ 55,490
Post-employment benefits	491	481
	$ 110,324	$ 55,971

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

29. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank loans:

	December 31 2018	2017
Inventory	$ 32,780	$ 21,811
Property, plant and equipment	14,732	15,436
	$ 47,512	$ 37,247

30. 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, 2018 and 2017 were as follows:

a. As of December 31, 2018 and 2017, unused letters of credit for purchases of raw materials amounted to approximately $702,878 thousand and $781,633 thousand, respectively.

b. Unrecognized commitments are as follows:

	December 31 2018	2017
Acquisition of property, plant and equipment	$ 20,153	$ 33,562

c. Product liability insurance

The Corporation purchased product liability insurance over the products manufactured by the Corporation and its subsidiaries. The insured amount of the sales in USA and Canada is US$4,000 thousand and it covers accidents happening after September 18, 2000. The maximum indemnity claims for the single original cause of a liability is US$3,000 thousand. The insured amount for sales, other than those within the USA and Canada, is US$1,000 thousand, and covers accidents happening after January 17, 1999. The maximum indemnity claims for the single original cause of a liability is US$1,000 thousand.

31. 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, 2018			December 31, 2017		
	Foreign Currency	**Exchange Rate**	**Carrying Amount**	**Foreign Currency**	**Exchange Rate**	**Carrying Amount**
Financial assets						
Monetary items						
USD	$ 158,854	30.715	$ 4,879,202	$ 126,464	29.76	$ 3,763,554
JPY	667,104	0.2782	185,588	438,720	0.2642	115,910
Non-monetary items						
Associates accounted for using the equity method						
USD	301,260	30.715	9,253,193	272,737	29.76	8,116,656
EUR	5,734	35.20	201,850	5,034	35.57	179,074
JPY	137,344	0.2782	38,209	131,732	0.2642	34,804
Financial liabilities						
Monetary items						
USD	38,384	30.715	1,178,963	48,638	29.76	1,447,480
JPY	2,029,088	0.2782	564,492	1,954,312	0.2642	516,329

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			
	2018		2017	
Foreign Currency	**Exchange Rate**	**Net Foreign Exchange Gain**	**Exchange Rate**	**Net Foreign Exchange Loss**
NTD	1 (NTD:NTD)	$ 124,183	1 (NTD:NTD)	$ (38,546)
RMB	4.56 (RMB:NTD)	19,128	4.507 (RMB:NTD)	(23,613)
GBP	40.25 (GBP:NTD)	14,984	39.21 (GBP:NTD)	2,961
EUR	35.61 (EUR:NTD)	14,782	34.35 (EUR:NTD)	(8,190)
		$ 173,077		$ (67,388)

32. 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 or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital. (Table 4)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital. (None)

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

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 6)

9) Trading in derivative instruments.

The Corporation has no outstanding forward contract as of December 31, 2018 and 2017. The net profit from trading in derivative instruments is $566 thousand in 2018.

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

11) Information on investees. (Table 8)

b. Information on investments in mainland China:

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 9)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 5)

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 5)

c) The amount of property transactions and the amount of the resultant gains or losses. (None)

d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the year and their purposes. (Table 2)

e) The highest balance, the end of year balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)

f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)

33. 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, 2018				
	Domestic Operations	**Asia Operations**	**Europe Operations**	**Reconciliation and Elimination**	**Total**
Revenue					
Revenue from external customers	$20,714,198	$ 1,378,985	$ 3,759,759	$ -	$25,852,942
Revenue from internal segments	2,081,397	1,158,641	140,249	(3,380,287)	-
Interest income	44,455	26,663	3,003	(12,243)	61,878
Share of profit of associates accounted for using the equity method	1,059,001	-	-	7,132	1,066,133
Total revenue	$23,899,051	$ 2,564,289	$ 3,903,011	$ (3,385,398)	$26,980,953
Interest expenses	$ 8,626	$ 21,887	$ 25,739	$ (5,265)	$ 50,987
Depreciation and amortization	78,338	146,087	26,425	-	250,850
Income tax expense	843,211	-	32,607	-	875,818
Segment profit and loss	1,708,835	(121,805)	149,590	9,217	1,745,837
Assets					
Investments accounted for using the equity method	$12,923,527	$ -	$ -	$ (3,214,605)	$ 9,708,922
Non-current assets	14,128,720	1,507,544	155,671	(3,290,340)	12,501,595
Segment assets	20,592,446	4,087,380	2,338,541	(4,240,260)	22,778,107
Segment liabilities	7,840,270	910,976	1,651,650	(901,806)	9,501,090

	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

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			
	2018		2017	
Name	**Amount**	**%**	**Amount**	**%**
Customer A	$16,541,791	64	$14,514,742	65

TABLE 1

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Lender	Borrower (Note 4)	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	$ 30,638	$ 30,638	$ 24,926	6.48	Business relationship	$ 198,375	-	$ -	-	$ -	$ 4,891,815 (Note 1)	$ 4,891,815 (Note 1)
		Merida Italy	Other receivables from related parties	Yes	35,949	-	-	4	Business relationship	278,290	-	-	-	-	9,680 (Note 2)	4,891,815 (Note 1)
1	Merida Shandong	Merida Jiangsu	Other receivables from related parties	Yes	RMB 50,000	RMB 50,000	RMB 7,500	2.325	For short-term financing needs	-	Operating capital	-	-	-	RMB 72,465 (Note 3)	RMB 72,465 (Note 3)

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

Note 2: 50% of the capital of Merida Italy.

Note 3: 40% of the net assets of Merida Shandong in their financial statements for the previous year.

Note 4: Significant intercompany accounts and transactions have been eliminated.

TABLE 2

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity In Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given On Behalf of Companies in Mainland China
		Name	Relationship										
0	The Corporation	Merida U.K.	Subsidiary	$ 3,475,553	EUR 500 GBP 4,000	EUR 500 GBP 4,000	$ - GBP 3,993	$ -	1.42	$ 5,792,588	Yes	-	-
		Merida & Centurion	Subsidiary	3,475,553	EUR 6,000	EUR 6,000	EUR 5,600	-	1.73	5,792,588	Yes	-	-
		Merida Jiangsu	Indirectly owned subsidiary	3,475,553	USD 25,750	USD 25,750	USD 7,250	-	6.46	5,792,588	Yes	-	Yes

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

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

TABLE 3

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2018			
				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 FVTPL - current	8,722	$ 90,022	-	$ 90,022
	Mega Diamond Money Market Fund (Note 1)	-	Financial assets at FVTPL - current	7,992	100,070	-	100,070
	Yuanta Wan Tai Money Market Fund (Note 1)	-	Financial assets at FVTPL - current	6,615	100,058	-	100,058
	Cathay Taiwan Money Market Fund (Note 1)	-	Financial assets at FVTPL - current	7,243	90,019	-	90,019
	Share capital						
	Leechi Enterprises Co., Ltd. (Note 1)	-	Financial assets at FVTPL - current	113	1,116	-	1,116
	Cheng Shin (Note 1)	Corporation's chairman is their director	Financial assets at FVTPL - current	1,146	46,807	-	46,807
	Kuei Meng (Note 1)	-	Financial assets at FVTPL - current	734	71,603	-	71,603
	Merida Benelux (Note 2)	-	Financial assets at FVTOCI - non-current	2,749	89,220	-	89,220
	SR Suntour Inc.	-	Financial assets at FVTOCI - non-current	110	3,000	-	3,000
	Taifong Golf Course	-	Financial assets at FVTOCI - non-current	30	400	-	400
	Long Jee Holdings Pte. Ltd.	-	Financial assets at FVTOCI - non-current	330	-	2	-

Note 1: Publicly listed securities are measured at their closing market prices on the balance sheet date as of December 31, 2018. Mutual funds are measured at the net asset value on the balance sheet date as of December 31, 2018.

Note 2: The preference shares investment has been eliminated.

TABLE 4

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Shares and Units)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
The Corporation	Franklin Templeton Sinoam Money Market Fund	Financial assets at FVTPL - current	-	-	15,608	$ 160,349 (Note)	23,281	$ 240,000	30,167	$ 310,985	$ 310,000	$ 985	8,722	$ 90,022 (Note)
	Mega Diamond Money Market Fund	Financial assets at FVTPL - current	-	-	8,039	100,212 (Note)	27,996	350,000	28,043	350,787	350,000	787	7,992	100,070 (Note)

Note: The net asset values are measured as of the balance sheet date at December 31, 2018.

TABLE 5

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, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

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	Investment accounted for using the equity method	Sale	$ (16,442,542)	(72)	O/A 60 days	$ -	-	$ 1,324,192	48	
	Merida & Centurion	Subsidiary	Sale	(1,130,528)	(5)	D/A or O/A 150 days	-	-	235,494	9	
	Merida Bikes SWE	Investment accounted for using the equity method	Sale	(446,951)	(2)	T/T 14 days or D/A 60-120 days	-	-	37,300	1	
	Stians	Investment accounted for using the equity method	Sale	(397,944)	(2)	T/T 14 days or D/A 120 days	-	-	101,994	4	
	SAIL & SURF	Investment accounted for using the equity method	Sale	(383,498)	(2)	T/T 14 days or D/A 180 days	-	-	28,004	1	
	Merida Benelux	Subsidiary	Sale	(354,673)	(2)	O/A 180 days	-	-	182,775	7	
	Miyata	Investment accounted for using the equity method	Sale	(305,402)	(1)	O/A 90 days	-	-	82,822	3	
	Merida Italy	Investment accounted for using the equity method	Sale	(278,290)	(1)	D/A 90 days	-	-	173,871	6	
	Merida Korea	Investment accounted for using the equity method	Sale	(258,623)	(1)	O/A 120days	-	-	67,397	2	
	Merida Polska	Subsidiary	Sale	(198,375)	(1)	O/A 150 days	-	-	174,657	6	
	Merida Czech	Investment accounted for using the equity method	Sale	(196,363)	(1)	D/A 150 days	-	-	105,118	4	
	Merida U.K.	Subsidiary	Sale	(195,127)	(1)	O/A 60 days	-	-	70,942	3	
	Merida slovakia	Investment accounted for using the equity method	Sale	(102,606)	-	D/A 150 days	-	-	40,378	1	
	Merida China	Indirectly owned subsidiary	Sale	(206,579)	(1)	T/T 90 days	-	-	-	-	
			Purchase	560,297	3	T/T 90 days	-	-	(91,335)	(2)	
	Merida Jiangsu	Indirectly owned subsidiary	Purchase	534,884	3	T/T 90 days	-	-	(56,436)	(2)	
Merida Shandong	Merida China	Associate	Sale	RMB (126,938)	(92)	T/T 90 days	-	-	RMB 6,142	79	

Note: Significant intercompany accounts and transactions have been eliminated.

TABLE 6

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, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

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	SBC Group	Investment accounted for using the equity method	Trade receivables from related parties	$ 1,324,192	16.26	$ -	-	$ 1,319,921	$ -
	Merida & Centurion	Subsidiary	Trade receivables from related parties	235,494	4.70	-	-	23	-
			Other receivables from related parties	1,335	-	-	-	-	-
	Merida Benelux	Subsidiary	Trade receivables from related parties	182,775	2.23	-	-	48,474	-
			Other receivables from related parties	3,655	-	-	-	969	-
	Merida Polska	Subsidiary	Trade receivables from related parties	174,657	1.36	-	-	-	-
			Other receivables from related parties	24,926	-	24,926	Continued collection	11,517	-
	Merida Italy	Investment accounted for using the equity method	Trade receivables from related parties	173,871	1.66	-	-	55,386	3,156
	Merida Czech	Investment accounted for using the equity method	Trade receivables from related parties	105,118	2.37	-	-	69,210	118
			Other receivables from related parties	4,209	-	-	-	2,768	-
	Stians	Investment accounted for using the equity method	Trade receivables from related parties	101,994	5.60	-	-	57,832	50
			Other receivables from related parties	1,270	-	-	-	386	-

Note: Significant intercompany accounts and transactions have been eliminated.

TABLE 7

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Investee Company	Counterparty	Relationship (Note)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% of Total Sales or Assets
0	The Corporation	Merida & Centurion	1	Sales	$ 1,130,528	D/A or O/A 150 days	4
				Promotional and advertising expenses	44,128	-	-
				Trade receivables	235,494	D/A or O/A 150 days	1
				Other receivables	1,335	-	-
				Unrealized gain on transaction	37,650	-	-
				Deferred unrealized gain on transaction	60,207	-	-
				Interest income	4,003	-	-
		Merida Benelux	1	Sales	354,673	O/A 180 days	1
				Trade receivables	182,775	O/A 180 days	1
				Other receivables	3,655	-	-
				Unrealized gain on transaction	13,256	-	-
				Deferred unrealized gain on transaction	20,725	-	-
				Interest income	6,977	-	-
		Merida Polska	1	Sales	198,375	O/A 150 days	1
				Trade receivables	174,657	O/A 150 days	1
				Other receivables	24,926	-	-
				Deferred unrealized gain on transaction	17,220	-	-
				Unrealized gain on transaction	10,920	-	-
		Merida U.K.	1	Sales	195,127	O/A 60 days	1
				Trade receivables	70,942	O/A 60 days	-
				Deferred unrealized gain on transaction	18,514	-	-
				Unrealized gain on transaction	9,782	-	-
				Interest income	1,263		-
		Merida Jiangsu	1	Cost of goods sold	534,884	T/T 90 days	2
				Trade payable	56,436	T/T 90 days	-
				Technical service revenue	1,938	-	-
				Other receivables	1,591	-	-
		Merida Hong Kong	1	Cost of goods sold	41,961	T/T 90 days	-
		Merida SAMOA	1	Cost of goods sold	2,936	T/T 90 days	-
		Merida China	1	Other receivables	27,304	-	-
				Sales	206,579	T/T 90 days	1
				Cost of goods sold	560,297	T/T 90 days	2
				Trade payable	91,335	T/T 90 days	-
				Trademark franchise and technical service revenue	33,068	-	-

(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	$ 5,738	-	-
				Cost of goods sold	20,039	T/T 90 days	-
				Trade payables	6,494	T/T 90 days	-
				Trademark franchise and technical service revenue	6,948	-	-
1	Merida Hong Kong	Merida China	1	Cost of goods sold	HKD 15,285	T/T 90 days	-
		Merida Shandong	1	Cost of goods sold	HKD 355	T/T 90 days	-
2	Merida China	Merida Shandong	3	Cost of goods sold	RMB 126,938	T/T 90 days	2
				Sales	RMB 555	T/T 90 days	-
				Trade payables	RMB 6,142	T/T 90 days	-
				Prepayments	RMB 2,576	-	-
		Merida Jiangsu	3	Cost of goods sold	RMB 21,152	T/T 90 days	-
				Trade payables	RMB 474	T/T 90 days	-
				Prepayments	RMB 1,427	-	-
3	Merida Shandong	Merida Jiangsu	3	Cost of goods sold	RMB 1,137	T/T 90 days	-
				Sales	RMB 380	T/T 90 days	-
				Trade receivables	RMB 155	T/T 90 days	-
				Other receivables	RMB 7,501	-	-
4	Merida SAMOA	Merida Jiangsu	1	Cost of goods sold	USD 3,267	T/T 90 days	-

(Concluded)

Note: Flow of transactions numbered as follows: (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, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Investor Company	Investee Company (Note 2)	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2018			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2018	December 31, 2017	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	$ 9,415,791	USD 96,982	$ 1,034,660	
	Merida B.V.I.	British Virgin Islands	International investment	1,362,597	1,362,597	42,500	100	2,912,131	USD (2,846)	(83,716)	Subsidiary
	Merida & Centurion	Stuttgart, Germany	Sale of bicycles	31,713	31,713	-	51	205,764	EUR 4,204	76,343	Subsidiary
	Merida Polska	Gliwice, Poland	Sale of bicycles and bicycle components	113,170	113,170	-	74	66,334	PLN (245)	(1,517)	Subsidiary
	Stians	Lysaker, Norway	Sale of bicycles	29,780	29,780	34	34	18,117	NOK (6,954)	(8,767)	
	SAIL & SURF	Strobl, Austria	Sale of bicycles	116,195	116,195	-	40	90,083	EUR 714	10,170	
	Merida Czech	Brno, Czech Republic	Sale of bicycles	21,042	21,042	-	45	33,892	CZK 8,030	5,017	
	Merida Bikes SWE	Madrid, Spain	Sale of bicycles	18,646	18,646	1	36	70,158	EUR 1,325	17,153	
	WideDoctor	Changhua, Taiwan	Marketing of daily necessities	16,900	16,900	690	26	4,319	$ 1,285	328	
	Merida Slovakia	Partizanska, Slovakia	Sale of bicycles	40	40	-	30	21,432	EUR 123	1,313	
	Miyata	Tokyo, Japan	Sale of bicycles	79,913	79,913	1	45	36,091	JPY 12,471	1,532	
	Merida Italy	Reggio Emilia, Italy	Sale of bicycles	5,164	5,164	-	27	6,219	EUR 318	3,093	
	Merida Benelux	Beekbergen, Netherlands	Sale of bicycles	65,400	65,400	766	60	(68,833)	EUR (23)	(492)	Subsidiary
	Merida U.K.	Nottingham, United Kingdom	Sale of bicycles	40,309	40,309	482	81	30,376	GBP 69	2,250	Subsidiary
	Merida Korea	Seoul, Republic of Korea	Sale of bicycles	10,598	10,598	77	40	12,820	KRW 147,947	1,634	
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 74,296	HKD (478)	(Note 1)	Indirectly owned subsidiary
	Merida SAMOA	Samoa	International investment	USD 24,500	USD 24,500	24,500	70	USD 20,055	USD (3,981)	(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 720	EUR 203	(Note 1)	Indirectly owned subsidiary
	Merida R&D Center GmbH	Stuttgart, Germany	Design and development of bicycles	EUR 25	EUR 25	-	100	EUR 254	EUR 125	(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, 2018
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2018 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Merida China	Manufacture and sale of bicycles	$ 377,180 (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	$ 340,537 (USD 11,087)	$ -	$ -	$ 340,537 (USD 11,087)	$ 1,005	100	$ 1,005	$ 972,713	$ 1,373,176 (USD 44,707)
Merida Shandong	Manufacture and sale of e-bikes and bicycles	491,440 (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	491,440 (USD 16,000)	-	-	491,440 (USD 16,000)	(16,277)	100	(16,277)	794,446	796,225 (USD 25,923)
Merida Jiangsu	Manufacture and sale of bicycles	1,075,025 (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	506,798 (USD 16,500)	-	-	506,798 (USD 16,500)	(121,994)	70	(85,396)	584,316	-

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2018	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by the Investment Commission, MOEA
$ 1,338,775 (USD 43,587)	$ 1,404,136 (USD 45,715) (Note 2)	$ 7,966,210 (Note 3)

Note 1: The investment gain (loss) and carrying amount as of December 31, 2018 are recognized according to the financial statements audited by the Corporation’s independent auditors.

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

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

MERIDA INDUSTRY CO., LTD.

Chairman Zeng,Song-zhu