# 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:

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

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.

Inventory valuation

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)**

| | | Capital Surplus (Note 19) | | Retained Earnings (Note 19) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Shares | 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 |
| 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) |

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## 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.

      <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 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 | IFRS 9 | Carrying Amount IAS 39 | 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 For the Year Ended December 31** | | **Dividends Per Share (NT$) 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** |
| <u>Financial assets</u> | | |
| 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 | - |
| <u>Financial liabilities</u> | | |
| 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 | December 31 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<br>GBP 4,000 | EUR 500<br>GBP 4,000 | $ -<br>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.

**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 | 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”.

# THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

**STATEMENT 1**

# MERIDA INDUSTRY CO., LTD.

**STATEMENT OF CASH AND CASH EQUIVALENTS**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Item | Foreign Currency | Exchange Rate | Amount |
|---|---|---|---|
| Cash on hand and petty cash | | | $ 290 |
| Cash in banks | | | |
| Demand deposits | | | 114,907 |
| Foreign currency deposits | | | |
| USD | 7,238 | 30.715 | 222,316 |
| EUR | 10 | 35.200 | 349 |
| JPY | 366,164 | 0.2782 | 101,867 |
| Cash equivalents | | | |
| Time deposits (Note 1) | | | 246,000 |
| Foreign currency time deposits | | | |
| USD (Note 2) | 21,360 | 30.715 | 656,073 |
| | | | $ 1,341,802 |

Note 1: Expiry from January 2019 to March 2019, interest rates at 0.60%-0.66%.

Note 2: Expiry in January 2019, interest rates at 2.40%-3.00%.

# MERIDA INDUSTRY CO., LTD.

**FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Type and Name of Marketable Securities | Number of Shares/Units | Acquisition Cost | Market Value Unit Price | Market Value Total Amount |
|---|---|---|---|---|
| Mutual funds | | | | |
| Mega Diamond Money Market Fund | 7,991,561 | $ 100,000 | 12.5219 | $ 100,070 |
| Yuanta Wan Tai Money Market Fund | 6,615,202 | 100,000 | 15.1255 | 100,058 |
| Franklin Templeton Sinoam Money Market Fund | 8,722,302 | 90,000 | 10.3209 | 90,022 |
| Cathay Taiwan Money Market Fund | 7,243,118 | 90,000 | 12.4282 | 90,019 |
| | | 380,000 | | 380,169 |
| Domestic listed shares | | | | |
| Kuei Meng | 734,394 | 76,731 | 97.5 | 71,603 |
| Cheng Shin | 1,145,814 | 49,858 | 40.85 | 46,807 |
| Leechi Enterprises Co., Ltd. | 112,750 | 4,777 | 9.9 | 1,116 |
| | | 131,366 | | 119,526 |
| | | $ 511,366 | | $ 499,695 |

# MERIDA INDUSTRY CO., LTD.

## STATEMENT OF ACCOUNTS RECEIVABLE
## DECEMBER 31, 2018
## (In Thousands of New Taiwan Dollars)

| Client Name | Amount |
|---|---|
| Notes receivable - non-related parties | |
| Acetrikes Ind. Co., Ltd. | $ 15,143 |
| Others (Note) | 1,385 |
| | $ 16,528 |
| Accounts receivable - non-related parties | |
| BIKEFUN LTD | $ 25,886 |
| Acetrikes Ind. Co., Ltd. | 21,373 |
| SLOPESTYLE LLC | 21,323 |
| ADVANCE TRADERS (AUSTRALIA) PTY LTD. | 13,448 |
| Bikes International Ltd. | 11,377 |
| Others (Note) | 24,544 |
| | 117,951 |
| Less: Allowance for impairment loss | (541) |
| Total | $ 117,410 |

Note: The amount from each individual client included in others does not exceed 5% of the account balance.

**STATEMENT 4**

# MERIDA INDUSTRY CO., LTD.

**STATEMENT OF OTHER RECEIVABLES**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Technical service and royalty receivable | $ 34,633 |
| Interest receivable | 13,441 |
| Sales tax refund receivable | 10,370 |
| Other | 34,989 |
| | $ 93,433 |

# MERIDA INDUSTRY CO., LTD.

## STATEMENT OF INVENTORIES
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Amount | |
|---|---|---|
| | Cost | Market Price (Note 1) |
| Finished goods | $ 245,699 | $ 260,982 |
| Work in process | 508,490 | 518,863 |
| Raw materials and supplies | 808,085 | 822,602 |
| Inventory in transit | 59,415 | 59,415 |
| | $ 1,621,689 | $ 1,661,862 |

Note 1: Net realizable value is used in the valuation of inventories.

Note 2: Inventories have not been provided as a collateral.

TABLE 6

## MERIDA INDUSTRY CO., LTD.

**STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| | Balance, January 1, 2018 | | Effect of Retrospective Application | | Balance, January 1, 2018 | | | Additions | | Decrease | | Balance, December 31, 2018 | | | Accumulated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Investees** | **Shares** | **Amount** | **Shares** | **Amount** | **Shares** | **Amount** | **Ownership (%)** | **Shares** | **Amount** | **Shares** | **Amount** | **Shares** | **Amount** | **Ownership (%)** | **Impairment** |
| Domestic unlisted shares | | | | | | | | | | | | | | | |
| SR Suntour Inc. | - | $ - | 110,000 | $ 3,000 | 110,000 | $ 3,000 | - | - | $ - | - | $ - | 110,000 | $ 3,000 | - | $ - |
| Taifong Golf Course | - | - | 30,000 | 400 | 30,000 | 400 | - | - | - | - | - | 30,000 | 400 | - | - |
| Long Jee Holdings Pte. Ltd. | - | - | 330,000 | - | 330,000 | - | 2 | - | - | - | - | 330,000 | - | 2 | - |
| | | - | | 3,400 | | 3,400 | | | - | | - | | 3,400 | | - |
| Overseas unlisted shares | | | | | | | | | | | | | | | |
| Merida Benelux | - | - | 2,748,367 | 89,220 | 2,748,367 | 89,220 | - | - | - | - | - | 2,748,367 | 89,220 | - | - |
| | | $ - | | $ 92,620 | | $ 92,620 | | | $ - | | $ - | | $ 92,620 | | $ - |

**TABLE 7**

## MERIDA INDUSTRY CO., LTD.

**STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| | Balance, January 1, 2018 | | | Additions in Investments | | Decrease in Investments | | | | Exchange Differences on Translating the Financial Statements of Foreign | Realized (Unrealized) | Balance, December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investees | Shares | Amount | Ownership (%) | Shares | Amount | Shares | Amount | Other (Note) | Share of Profit (Loss) of Subsidiaries and Associates | Operations | Gain on Transactions | Shares | Amount | Ownership (%) | Net Assets Value |
| Long-term Investments | | | | | | | | | | | | | | | |
| SBC | 3,409,982 | $ 8,423,339 | 35 | - | $ - | - | $ - | $ - | $ 1,034,660 | $ 101,878 | $ (144,086) | 3,409,982 | $ 9,415,791 | 35 | $ 9,253,193 |
| Merida B.V.I. | 42,500,000 | 3,027,287 | 100 | - | - | - | - | - | (83,716) | (29,458) | (1,982) | 42,500,000 | 2,912,131 | 100 | 2,912,413 |
| Merida & Centurion | - | 169,952 | 51 | - | - | - | - | - | 76,343 | (2,881) | (37,650) | - | 205,764 | 51 | 265,972 |
| Merida Polska | 100 | 82,716 | 74 | - | - | - | - | - | (1,517) | (3,945) | (10,920) | 100 | 66,334 | 74 | 83,554 |
| Stians | 34,000 | 30,351 | 34 | - | - | - | - | - | (8,767) | (423) | (3,044) | 34,000 | 18,117 | 34 | 23,044 |
| SAIL & SURF | - | 85,564 | 40 | - | - | - | - | - | 10,170 | (931) | (4,720) | - | 90,083 | 40 | 87,472 |
| Merida Czech | - | 34,670 | 45 | - | - | - | - | - | 5,017 | (900) | (4,895) | - | 33,892 | 45 | 38,099 |
| Merida Bikes SWE | 448 | 65,826 | 36 | - | - | - | - | (6,765) | 17,153 | (879) | (5,177) | 448 | 70,158 | 36 | 78,684 |
| Wide Doctor | 690,000 | 3,991 | 26 | - | - | - | - | - | 328 | - | - | 690,000 | 4,319 | 26 | 4,319 |
| Merida Slovakia | - | 22,365 | 30 | - | - | - | - | - | 1,313 | (254) | (1,992) | - | 21,432 | 30 | 23,989 |
| Miyata | 900 | 35,572 | 45 | - | - | - | - | - | 1,532 | 1,873 | (2,886) | 900 | 36,091 | 45 | 38,209 |
| Merida Italy | - | 7,339 | 27 | - | - | - | - | - | 3,093 | (127) | (4,086) | - | 6,219 | 27 | 11,705 |
| Merida U.K. | 481,763 | 39,036 | 81 | - | - | - | - | - | 2,250 | (1,128) | (9,782) | 481,763 | 30,376 | 81 | 35,405 |
| Merida Korea | 76,560 | 11,203 | 40 | - | - | - | - | - | 1,634 | (143) | 126 | 76,560 | 12,820 | 40 | 12,962 |
| | | 12,039,211 | | | - | | - | (6,765) | 1,059,493 | 62,682 | (231,094) | | 12,923,527 | | 12,869,020 |
| Long-term Investments - credit | | | | | | | | | | | | | | | |
| Merida Benelux | 766,126 | (55,029) | 60 | - | - | - | - | - | (492) | (56) | (13,256) | 766,126 | (68,833) | 60 | (48,109) |
| | | $ 11,984,182 | | | $ - | | $ - | $ (6,765) | $ 1,059,001 | $ 62,626 | $ (244,350) | | $ 12,854,694 | | $ 12,820,911 |

Note: Merida Bikes SWE has declared the distribution of cash dividends.

# MERIDA INDUSTRY CO., LTD.

**STATEMENT OF ACCOUNTS PAYABLE**
**DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Vendor Name | Amount |
|---|---|
| Non-related parties | |
| SRAM Corporation, Taiwan | $ 580,986 |
| TOPKEY Corporation | 301,336 |
| New Score Investment Ltd. | 217,039 |
| Others (Note) | 2,378,082 |
| | $ 3,477,443 |

Note: The amount to each individual vendor in others does not exceed 5% of the account balance.

# MERIDA INDUSTRY CO., LTD.

## STATEMENT OF NET REVENUE
## FOR THE YEAR ENDED DECEMBER 31, 2018
## (In Thousands of New Taiwan Dollars)

| Item | Shipments | Amount |
|---|---|---|
| Bikes | About 943 thousand units | $ 21,842,237 |
| Frames | | 397,946 |
| Rims | | 405,777 |
| Other parts | | 172,907 |
| Gross sales | | 22,818,867 |
| Less: Sales returns | | (84) |
| Sales discounts and allowances | | (23,188) |
| Net sales | | $ 22,795,595 |

# MERIDA INDUSTRY CO., LTD.

## STATEMENT OF COST OF REVENUE
## FOR THE YEAR ENDED DECEMBER 31, 2018
## (In Thousands of New Taiwan Dollars)

| Item | Amount |
|---|---|
| Raw material and supplies, beginning of year | $ 695,429 |
| Add: Raw material and supplies purchased | 19,307,164 |
| Less: Sale of raw material and supplies | (12,242) |
| Raw material and supplies, end of year | (879,531) |
| Loss on raw material and supplies | (307) |
| Raw material and supplies scrapped | (6,544) |
| Other | (85,753) |
| Raw material and supplies used | 19,018,216 |
| Direct labor | 804,313 |
| Manufacturing expenses | 595,127 |
| Manufacturing cost | 20,417,656 |
| Add: Work in process, beginning of year | 523,905 |
| Less: Work in process, end of year | (513,353) |
| Sale of work in process | (993,813) |
| Work in process scrapped | (4,204) |
| Cost of finished goods | 19,430,191 |
| Add: Finished goods, beginning of year | 255,347 |
| Less: Finished goods, end of year | (249,120) |
| Transferred to other expenses | (5,848) |
| Cost of goods sold | 19,430,570 |
| Sales of raw material and supplies | 12,242 |
| Sale of work in process | 993,813 |
| Scrapped and loss on inventories | 11,055 |
| Revenue from sale of scraps | (7,424) |
| Reversal of write-downs of inventories | (12,213) |
| Cost of goods sold | $ 20,428,043 |

**STATEMENT 11**

# MERIDA INDUSTRY CO., LTD.

**STATEMENT OF OPERATING EXPENSES**
**FOR THE YEAR ENDED DECEMBER 31, 2018**
**(In Thousands of New Taiwan Dollars)**

| Item | Selling and Marketing Expenses | General and Administrative Expenses | Total |
|---|---|---|---|
| Advertisement | $ 305,941 | $ - | $ 305,941 |
| Payroll and annual bonus | 98,083 | 85,213 | 183,296 |
| Remuneration of directors and supervisors | - | 72,597 | 72,597 |
| Shipping expense | 54,722 | - | 54,722 |
| Insurance expense | 27,906 | 3,728 | 31,634 |
| Depreciation expense | 16,273 | 3,092 | 19,365 |
| Export expense | 15,939 | - | 15,939 |
| Professional service fees | 426 | 11,730 | 12,156 |
| Others | 86,715 | 30,248 | 116,963 |
| Total | $ 606,005 | $ 206,608 | $ 812,613 |