

Common Stock Code : 9914

Merida Industry Co., Ltd.

# Handbook

for the 2020 Annual Meeting of  
Shareholders

June 24, 2020

# Merida Industry Co., Ltd.

## 2020 Annual Shareholders' Meeting

Time : 9:30 a.m., June 24th, 2020 ( Wednesday ) Location : No. 116,  
Meigang Road, Meigang Village, Dacun Township, Changhua County  
515, Taiwan ( R02 Conference Room, F4, Merida Industry Co., Ltd. )

Agenda :

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## Management Presentations

1. To report 2019 employees' compensation and directors' compensation :
  - (1) Article 32 in the Articles of Incorporation of Merida shall be followed
  - (2) In 2019, Merida's income before tax was NTD\$ 3,471,976,661 before deducting employees' compensation and directors' compensation. The employees' compensation was distributed by 6% of the above amount, totaling NTD\$ 208,318,600, and the directors' compensation was distributed by 2.6% of the above amount, totaling NTD\$ 90,271,393, which has been distributed in full in cash.

## 2. 2019 Business Report :

### **Merida Industry Co., Ltd.**

#### **2019 Business Report**

According to the statistical report of the Taiwan Bicycle Association (TBA), in 2019, the export quantity, amount, and average unit price of Taiwan's power assist electric bicycles [hereinafter referred to as electric bicycles] increased by 124.96%, 128.50%, and 1.57%, respectively. On the other hand, the export quantity, amount, and average unit price of traditional bicycles [hereinafter referred to as bicycles] decreased by 3.85%, 9.23% and 5.59%, respectively. It shows that in major markets such as Europe and America, mid- and high-end electric bicycles has replaced some of the mid- and high-end bicycles, as the demand for sports, leisure, and white-collar commuting using mid- and high-end electric bicycles continues to increase significantly, and the demand for bicycles has decreased by a corresponding proportion.

The negative impact of shared bicycles eroding the China bicycle market in 2019 has diminished. Merida's own brand premium bicycle sales in China have increased by more than 12% annually. Taiwanese factories, which mainly export to the European and American high-end bicycle markets, has had a record high in annual revenue, electric bicycle sales volume and amount in the event of a sharp increase in demand for electric bicycles and a proportional decline in bicycle exports due to the substitution effect. The annual consolidated and independent [Taiwanese factories] sales volumes were 1.0522 million sets and 819,200 sets (including 236,100 sets of electric bicycles), annual decrease of 8.71% and 13.19% (including the annual increase of 64% in electric bicycles). The annual consolidated and independent revenues were NT \$ 28.024 billion and NT \$ 25.004 billion, respectively, an annual increase of 8.59% and 9.69%.

The support of all the shareholders and directors, as well as the efforts of all staff is highly appreciated. In the face of the decline of shared bike market in China, the gradual recovery of demand for high-end bicycles, the continued demand for electric bicycles in the American and European markets, and the decreasing demand for bicycles, Merida will actively adjust bicycle and electric bicycle production lines, dispatch manpower and resources, prepare production capacity to meet market demands, strive to achieve operational objectives, and achieve better results in a shorter time than the base period.

The consolidated and independent operating situations of Merida in 2019 are hereby reported as follows :

#### (1) Achievements of operating plans :

Unit: 10,000 sets

Item	Budget	Actual	Completion Rate
Consolidated	118	105.22	89.17%
Independent	89	81.92	92.04%

(2) Operating Situations  
a. Consolidated

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

Item	Year		Comparison of the same period	
	2019	2018		
SALES QUANTITY	105.22	115.25	(10.03)	(8.70%)
SALES	\$28,243,214	\$25,852,942	\$2,390,272	9.25%
COST OF GOODS SOLD	24,423,564	22,463,953	1,959,611	8.72%
GROSS PROFIT	3,819,650	3,388,989	430,661	12.71%
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	(83,322)	(170,760)	87,438	(51.21%)
REALIZED GROSS PROFIT	3,736,328	3,218,229	518,099	16.10%
OPERATING EXPENSES	2,025,502	1,866,949	158,553	8.49%
PROFIT FROM OPERATIONS	1,710,826	1,351,280	359,546	26.61%
Non-operating income (expenses)	1,492,854	1,270,375	222,479	17.51%
Net income before tax	3,203,680	2,621,655	582,025	22.20%
Net profit at current period	2,500,984	1,745,837	755,147	43.25%

b. Independent

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

Item	Year		Comparison of the same period	
	2019	2018		
SALES QUANTITY	81.92	94.37	(12.45)	(13.19%)
SALES	\$25,004,210	\$22,795,595	\$2,208,615	9.69%
COST OF GOODS SOLD	22,231,166	20,428,043	1,803,123	8.83%
GROSS PROFIT	2,773,044	2,367,552	405,492	17.13%
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	(190,075)	(244,350)	54,275	(22.21%)
REALIZED GROSS PROFIT	2,582,969	2,123,202	459,767	21.65%
OPERATING EXPENSES	834,253	812,613	21,640	2.66%
PROFIT FROM OPERATIONS	1,748,716	1,310,589	438,127	33.43%
Non-operating income (expenses)	1,424,671	1,241,457	183,214	14.76%
Net income before tax	3,173,387	2,552,046	621,341	24.35%
Net profit at current period	2,502,443	1,708,835	793,608	46.44%

### (3) Profitability Analysis

#### a. Consolidated

Item	2019	2018	Comparison of the same period
Rate of return on assets	10.47%	8.17%	28.15%
Return of equity	18.07%	13.77%	31.23%
Ratio of operating profits to paid-in capital	57.22%	45.20%	26.59%
Ratio of profits before tax to paid-in capital	107.15%	87.69%	22.19%
Net profit margin	8.86%	6.75%	31.26%
Earnings per share (NTD\$)	8.37	5.72	46.33%

#### b. Independent

Item	2019	2018	Comparison of the same period
Rate of return on assets	11.58%	8.73%	32.65%
Return of equity	18.86%	14.04%	34.33%
Ratio of operating profits to paid-in capital	58.49%	43.83%	33.45%
Ratio of profits before tax to paid-in capital	106.14%	85.36%	24.34%
Net profit margin	10.01%	7.50%	33.47%
Earnings per share (NTD\$)	8.37	5.72	46.33%

### (4) R&D Conditions

- a. ONE-TWENTY(120): won the 27th (2019) Taiwan Excellence Gold Award.
- b. Time Warp TT: won the 27th (2019) Taiwan Excellence Silver Award.
- c. eONE-SIXTY: won the 28th (2020) Taiwan Excellent Award and was nominated for the Taiwan Excellence Gold and Silver Awards.
- d. MISSION CX: won the 28th (2020) Taiwan Excellent Award and was nominated for the Taiwan Excellence Gold and Silver Awards.

Zeng Songzhu, Chairman

Zeng Songzhu, President

Cai Xueliang, Chief Accountant

3. Audit Committee's review report on the 2019 financial statements :

**Audit Committee's Review Report**

The Board of Directors of Merida prepared the Independent and Consolidated financial statements in 2019, and entrusted the accountant Shu-Chin Chiang, and the accountant Done-Yuin Tseng from Deloitte & Touche with the audit of the financial statements, who have completed the audit and worked out the audit report. The abovementioned financial statements are the operating report and proposal for distribution of gains, and no noncompliance is found after it is checked by the Audit Committee. It is hereby reported as above in accordance with the relevant provisions of Security Exchange Law and the Company Law for checking.

Yours Faithfully

2020 Annual Shareholders' Meeting

Merida Industry Co., Ltd.

Chairman of the Audit Committee

*Chen Shui-jin*

March 24, 2020

4. Status of endorsements and guarantees :

Up to December 31st, 2019, the external guarantees of Merida by endorsement are as follows:

Unit : NTD\$ or foreign currencies 1,000

Object	Limit of endorsement and guarantee for a single enterprise	Balance of endorsement and guarantee at the end of the period	Amount of actual expenditure	Maximum endorsement and guarantee	Nature of guarantee
Merida U.K.	\$3,825,653	EUR 500	-	\$6,376,088	Bank's guarantee by Letter of Credit
		GBP 4,000	GBP 3,882		Short-term loan guarantee
Merida & Centurion Germany GmbH	3,825,653	EUR 2,500	EUR 2,100		Bank's guarantee by Letter of Credit
		EUR 3,500	EUR 3,500		Short-term loan guarantee
		EUR 21,000	EUR 7,800	Medium and long term loan guarantee	
MERIDA Bicycle (Jiangsu) Co.,Ltd.	3,825,653	USD 7,250	USD 3,750		Medium and long term loan guarantee



## Proposed Resolutions

Proposal 1: Adoption of the 2019 business report and financial statements (Proposed by the Board of Directors). )

Description: 2019 business report, Independent and Consolidated Financial Statements were approved at the 11th meeting of the 1st Audit Committee, and were submitted and passed at the 2nd board meeting in 2020 . Refer to page 3-5 of this Handbook for the Business Report; refer to page 9-29 for the Independent and Consolidated financial statements. They are hereby submitted for confirmation:

Resolution :

## **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, 2019 and 2018, 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, 2019 and 2018, 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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion based on our audits and the report of other auditors.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. 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, 2019 are as follows:

#### Revenue Recognition

The Corporation's operating revenue mainly comes from the manufacture and sale of bicycles, e-bikes, and bicycle components. As export revenue from the sale of e-bikes for the year ended December 31, 2019 increased significantly compared to the previous year, recognition of operating revenue from the sale of e-bikes has been identified as a key audit matter. For the accounting policies on the recognition of operating revenue, refer to Note 4.

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

1. We understood and evaluated the design and appropriateness of implementation of the internal controls related to the recognition of operating revenue and the operating procedures and risk related to revenue collection, and tested the effective continuous operating condition of its related procedures during the year.

2. We obtained the operating revenue sales receipts from the export of e-bikes, sampled the orders, and subsequently recognized the documents and receipt vouchers related to operating revenue. We also sampled orders with regard to the export of e-bikes and sent confirmation requests to verify the validity of the operating revenue recognized.

#### Inventory valuation

As of December 31, 2019, the Corporation's inventory was NT\$1,379,762 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 and estimation of the consumption of inventory based on 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 loss on damaged inventory.

#### **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, 2019 and 2018, 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\$10,440,751 thousand and NT\$9,415,791 thousand, accounting for 46% of the Corporation's total assets as of both December 31, 2019 and 2018. The share of profit of associates was NT\$1,374,891 thousand and NT\$1,034,660 thousand, accounting for 66% and 59% of the Corporation's total comprehensive income for the years ended December 31, 2019 and 2018, 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, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation

precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. The engagement partners on the audit resulting in this independent auditors' report are Shu-Chin Chiang and Done-Yuin Tseng.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 24, 2020

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, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,537,108	7	\$ 1,341,802	7
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	1,078,809	5	499,695	2
Notes receivable (Notes 4 and 19)	8,705	-	16,528	-
Trade receivables (Notes 4, 8 and 19)	127,718	-	117,410	1
Trade receivables from related parties (Notes 4, 8, 19 and 26)	3,209,120	14	2,629,448	13
Other receivables (Note 26)	216,829	1	93,433	-
Inventories (Notes 4, 5 and 9)	1,379,762	6	1,621,689	8
Other current assets	2,656	-	3,060	-
Total current assets	<u>7,560,707</u>	<u>33</u>	<u>6,323,065</u>	<u>31</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 10)	92,620	-	92,620	-
Investments accounted for using the equity method (Notes 4 and 11)	13,809,163	61	12,923,527	63
Property, plant and equipment (Notes 4 and 12)	1,013,022	4	1,033,651	5
Right-of-use assets (Notes 4 and 13)	6,808	-	-	-
Investment properties (Notes 4 and 14)	35,403	-	35,971	-
Deferred tax assets (Notes 4 and 21)	188,991	2	140,661	1
Prepayments for equipment	30,455	-	39,116	-
Other non-current assets - others	3,115	-	3,835	-
Total non-current assets	<u>15,179,577</u>	<u>67</u>	<u>14,269,381</u>	<u>69</u>
<b>TOTAL</b>	<u>\$ 22,740,284</u>	<u>100</u>	<u>\$ 20,592,446</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term bank loans (Note 15)	\$ 845,965	4	\$ 739,553	4
Trade payables	4,144,939	18	3,477,443	17
Trade payables to related parties (Note 26)	153,832	1	181,800	1
Other payables (Note 16)	513,100	2	458,080	2
Current tax liabilities (Notes 4 and 21)	272,744	1	251,677	1
Lease liabilities-current (Notes 4 and 13)	4,001	-	-	-
Other current liabilities - others	37,395	-	34,423	-
Total current liabilities	<u>5,971,976</u>	<u>26</u>	<u>5,142,976</u>	<u>25</u>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Notes 4 and 21)	2,702,913	12	2,455,737	12
Lease liabilities-non-current (Notes 4 and 13)	2,765	-	-	-
Net defined benefit liabilities (Notes 4 and 17)	195,207	1	172,722	1
Guarantee deposits received	267	-	2	-
Credit Balance of Investments Accounted for Using the Equity Method (Notes 4 and 11)	88,471	-	68,833	-
Total non-current liabilities	<u>2,989,623</u>	<u>13</u>	<u>2,697,294</u>	<u>13</u>
Total liabilities	<u>8,961,599</u>	<u>39</u>	<u>7,840,270</u>	<u>38</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION</b>				
Common shares	2,989,838	13	2,989,838	15
Capital surplus				
Share premium from issuance of common shares	416,290	2	416,290	2
Capital surplus from investments accounted for using the equity method	-	-	258	-
Retained earnings				
Legal reserve	2,482,733	11	2,311,849	11
Special reserve	769,489	3	807,624	4
Unappropriated earnings	8,283,384	37	6,995,807	34
Other equity	(1,163,049)	(5)	(769,490)	(4)
Total equity	<u>13,778,685</u>	<u>61</u>	<u>12,752,176</u>	<u>62</u>
<b>TOTAL</b>	<u>\$ 22,740,284</u>	<u>100</u>	<u>\$ 20,592,446</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 24, 2020)

# MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
SALES (Notes 4, 19 and 26)	\$ 25,004,210	100	\$ 22,795,595	100
COST OF GOODS SOLD (Notes 9, 20 and 26)	<u>22,231,166</u>	<u>89</u>	<u>20,428,043</u>	<u>90</u>
GROSS PROFIT	2,773,044	11	2,367,552	10
UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	<u>(190,075)</u>	<u>(1)</u>	<u>(244,350)</u>	<u>(1)</u>
REALIZED GROSS PROFIT	<u>2,582,969</u>	<u>10</u>	<u>2,123,202</u>	<u>9</u>
OPERATING EXPENSES (Notes 20 and 26)				
Selling and marketing expenses	596,359	2	606,005	2
General and administrative expenses	<u>237,894</u>	<u>1</u>	<u>206,608</u>	<u>1</u>
Total operating expenses	<u>834,253</u>	<u>3</u>	<u>812,613</u>	<u>3</u>
PROFIT FROM OPERATIONS	<u>1,748,716</u>	<u>7</u>	<u>1,310,589</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 26)	64,239	-	44,455	-
Technical service and royalty income (Note 26)	46,951	-	41,954	-
Other income	35,954	-	40,643	-
Net foreign exchange gains (Note 4)	45,202	-	124,183	-
Gain (loss) on fair value changes of financial assets at fair value through profit or loss (Note 4)	10,549	-	(30,716)	-
Share of profit of subsidiaries and associates (Note 4)	1,261,953	6	1,059,001	5
Interest expense	(9,381)	-	(8,626)	-
Other expenses (Note 20)	<u>(30,796)</u>	<u>-</u>	<u>(29,437)</u>	<u>-</u>
Total non-operating income and expenses	<u>1,424,671</u>	<u>6</u>	<u>1,241,457</u>	<u>5</u>
PROFIT BEFORE INCOME TAX	3,173,387	13	2,552,046	11
INCOME TAX EXPENSE (Notes 4 and 21)	<u>670,944</u>	<u>3</u>	<u>843,211</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>2,502,443</u>	<u>10</u>	<u>1,708,835</u>	<u>8</u>

(Continued)

# MERIDA INDUSTRY CO., LTD.

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

	<b>For the Year Ended December 31</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 17)	\$ (19,797)	-	\$ (10,732)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 21)	<u>3,959</u>	-	<u>4,240</u>	-
	<u>(15,838)</u>	-	<u>(6,492)</u>	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(393,559)</u>	<u>(2)</u>	<u>62,626</u>	-
	<u>(393,559)</u>	<u>(2)</u>	<u>62,626</u>	-
Other comprehensive income (loss) for the year, net of income tax	<u>(409,397)</u>	<u>(2)</u>	<u>56,134</u>	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,093,046</u>	<u>8</u>	<u>\$ 1,764,969</u>	<u>8</u>
EARNINGS PER SHARE (Note 22)				
Basic	<u>\$ 8.37</u>		<u>\$ 5.72</u>	
Diluted	<u>\$ 8.33</u>		<u>\$ 5.69</u>	

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

(With Deloitte & Touche auditors' report dated March 24, 2020)

(Concluded)



**MERIDA INDUSTRY CO., LTD.**

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

	Capital Surplus (Note 18)			Retained Earnings (Note 18)			Other Equity		Total
	Common Shares (Note 18)	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	
BALANCE AT JANUARY 1, 2018	\$ 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
Appropriation of 2018 earnings									
Legal reserve	-	-	-	170,884	-	(170,884)	-	-	-
Reversal of special reserve	-	-	-	-	(38,135)	38,135	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(1,046,443)	-	-	(1,046,443)
Difference between carrying amount and consideration on the actual acquisition or disposal of equity interests in subsidiaries	-	-	(258)	-	-	(19,836)	-	-	(20,094)
Net profit for the year ended December 31, 2019	-	-	-	-	-	2,502,443	-	-	2,502,443
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(15,838)	(393,559)	-	(409,397)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	2,486,605	(393,559)	-	2,093,046
BALANCE AT DECEMBER 31, 2019	\$ 2,989,838	\$ 416,290	\$ -	\$ 2,482,733	\$ 769,489	\$ 8,283,384	\$ (1,163,049)	\$ -	\$ 13,778,685

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

(With Deloitte & Touche auditors' report dated March 24, 2020)

**MERIDA INDUSTRY CO., LTD.**  
**STATEMENTS OF CASH FLOWS**  
**(In Thousands of New Taiwan Dollars)**

	<b>For the Year Ended</b>	
	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 3,173,387	\$ 2,552,046
Adjustments for:		
Depreciation expenses	68,304	76,494
Amortization expenses	866	1,844
Expected credit loss recognized (reversed) on trade receivables	(1,357)	6,780
Net (gain) loss on fair value changes of financial assets at fair value through profit or loss	(10,549)	30,716
Interest expense	9,381	8,626
Interest income	(64,239)	(44,455)
Dividend income	(4,813)	(5,452)
Share of profit of associates	(1,261,953)	(1,059,001)
Loss on disposal of property, plant and equipment	2,175	654
Write-downs (reversal) of inventories	(3,300)	(12,213)
Unrealized gain on transactions with associates	190,075	244,350
Unrealized net (gain) loss on foreign currency exchange	32,705	(527)
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(568,565)	62,763
Notes receivable	7,823	12,778
Trade receivables	(663,752)	(798,537)
Other receivables	7,531	18,821
Inventories	245,227	(167,323)
Other current assets	353	630
Trade payables	662,104	(36,708)
Other payables	55,582	110,705
Other current liabilities	2,972	(45,492)
Net defined benefit liabilities	2,688	3,361
Cash generated from operations	1,882,645	960,860
Interest received	59,832	41,051
Dividends received	14,497	12,217
Interest paid	(9,943)	(8,016)
Income tax paid	(447,072)	(261,206)
Net cash generated from operating activities	<u>1,499,959</u>	<u>744,906</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of associates	(217,457)	-
Payments for property, plant and equipment	(18,939)	(44,247)
Proceeds from disposal of property, plant and equipment	-	15
Increase in refundable deposits	-	(197)
Increase in other receivables from related parties	(126,520)	(1,766)
Increase in prepayments for equipment	(17,771)	(31,269)
Net cash used in investing activities	<u>(380,687)</u>	<u>(77,464)</u>

(Continued)

## MERIDA INDUSTRY CO., LTD.

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

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	For the Year Ended December 31	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	\$ 126,260	\$ 4,479
Refund of (proceeds from) guarantee deposits received	265	(253)
Repayment of the principal portion of lease liabilities	(4,048)	-
Dividends paid to owners of the Corporation	<u>(1,046,443)</u>	<u>(597,968)</u>
Net cash used in financing activities	<u>(923,966)</u>	<u>(593,742)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	195,306	73,700
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,341,802</u>	<u>1,268,102</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,537,108</u>	<u>\$ 1,341,802</u>

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

(With Deloitte & Touche auditors' report dated March 24, 2020)

(Concluded)

## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinion**

We have audited the accompanying consolidated financial statements of Merida Industry Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (refer to the Other Matter section of this report) the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2019 are as follows:

#### Revenue Recognition

The Group's operating revenue mainly comes from the manufacture and sale of bicycles, e-bikes, and bicycle components. As export revenue from the sale of e-bikes for the year ended

December 31, 2019 increased significantly compared to the previous year, recognition of operating revenue from the sale of e-bikes has been identified as a key audit matter. For the accounting policies on the recognition of operating revenue, refer to Note 4.

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

1. We understood and evaluated the design and appropriateness of implementation of the internal controls related to the recognition of operating revenue and the operating procedures and risk related to revenue collection, and tested the effective continuous operating condition of its related procedures during the year.
2. We obtained the operating revenue sales receipts from the export of e-bikes, sampled the orders, and subsequently recognized the documents and receipt vouchers related to operating revenue. We also sampled orders with regard to the export of e-bikes and sent confirmation requests to verify the validity of the operating revenue recognized.

#### Inventory valuation

As of December 31, 2019, the Group's inventory was NT\$4,653,985 thousand. Refer to Notes 4, 5 and 9 to the consolidated financial statements for disclosures related to inventory. Inventories are stated at the lower of cost or net realizable value. As the determination of the net realizable value inputs and estimation of the consumption of inventory aging is subject to estimation and judgment, inventory valuation was identified as a key audit matter.

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

1. We understood the process and evidence that the management used in estimating the net realizable value and the inventory obsolescence aging ratio.
2. We assessed the reasonableness of estimated selling prices, the variable sales to expense ratio and the inventory obsolescence aging ratio.
3. We checked the accuracy of inventory aging and the calculation of the net realizable value.
4. We observed the year-end inventory counts and evaluated the condition of the inventory to assess the adequacy of the provision for damaged stock.

#### **Other Matter**

We did not audit the financial statements of some of the investees accounted for using the equity method as of and for the years ended December 31, 2019 and 2018, 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\$10,440,751 thousand and NT\$9,415,791 thousand, accounting for 41% of the Group's consolidated total assets as of both December 31, 2019 and 2018. The share of profit of associates was NT\$1,374,891 thousand and NT\$1,034,660 thousand, accounting for 67% and 58% of the Group's consolidated comprehensive income for the years ended December 31, 2019 and 2018, respectively.

We have also audited the parent company only financial statements of Merida Industry Co., Ltd. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shu-Chin Chiang and Done-Yuin Tseng.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 24, 2020

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*



# MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 3,271,253	13	\$ 3,220,019	14
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	1,078,809	4	499,695	2
Notes receivable (Notes 4 and 21)	12,474	-	16,528	-
Trade receivables (Notes 4, 8 and 21)	759,041	3	450,525	2
Trade receivables from related parties (Notes 4, 8, 21 and 28)	1,745,195	7	1,965,580	9
Other receivables (Notes 4 and 28)	110,062	-	72,981	-
Inventories (Notes 4, 5, 9 and 29)	4,653,985	18	3,852,081	17
Other current assets (Notes 4, 16 and 23)	127,752	-	58,442	-
<b>Total current assets</b>	<b>11,758,571</b>	<b>45</b>	<b>10,135,851</b>	<b>44</b>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 10)	3,400	-	3,400	-
Investments accounted for using the equity method (Notes 4 and 12)	10,658,905	42	9,708,922	43
Property, plant and equipment (Notes 4, 13, 28 and 29)	2,400,791	10	2,342,984	10
Right-of-use assets (Notes 4 and 15)	540,505	2	-	-
Investment properties (Notes 4 and 14)	35,403	-	35,971	-
Intangible assets (Note 4)	45,307	-	40,685	-
Deferred tax assets (Notes 4 and 23)	188,991	1	140,661	1
Prepayments for equipment	30,496	-	39,116	-
Long-term prepayments for leases (Notes 4 and 16)	-	-	323,335	2
Other non-current assets	18,421	-	7,182	-
<b>Total non-current assets</b>	<b>13,922,219</b>	<b>55</b>	<b>12,642,256</b>	<b>56</b>
<b>TOTAL</b>	<b>\$ 25,680,790</b>	<b>100</b>	<b>\$ 22,778,107</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term bank loans (Notes 17 and 29)	\$ 1,880,773	7	\$ 1,645,786	7
Notes and trade payables	4,453,631	17	3,798,676	17
Trade payables to related parties (Note 28)	46,543	-	41,710	-
Other payables (Note 18)	813,144	3	775,282	3
Current tax liabilities (Notes 4 and 23)	301,936	1	274,560	1
Lease liabilities - current (Notes 4 and 15)	57,107	-	-	-
Current portion of long-term bank loans (Notes 17 and 29)	158,982	1	111,955	1
Other current liabilities - others	101,988	-	92,624	1
<b>Total current liabilities</b>	<b>7,814,104</b>	<b>29</b>	<b>6,740,593</b>	<b>30</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-term bank loans (Notes 17 and 29)	355,830	1	125,744	-
Deferred tax liabilities (Notes 4 and 23)	2,702,913	11	2,455,737	11
Lease liabilities - non-current (Notes 4 and 15)	174,038	1	-	-
Net defined benefit liabilities (Notes 4 and 19)	195,207	1	172,722	1
Guarantee deposits received	33,098	-	6,294	-
Credit Balance of Investments Accounted for Using the Equity Method (Notes 4 and 12)	1,740	-	-	-
<b>Total non-current liabilities</b>	<b>3,462,826</b>	<b>14</b>	<b>2,760,497</b>	<b>12</b>
<b>Total liabilities</b>	<b>11,276,930</b>	<b>43</b>	<b>9,501,090</b>	<b>42</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION</b>				
Common shares	2,989,838	12	2,989,838	13
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	-
Retained earnings				
Legal reserve	2,482,733	10	2,311,849	10
Special reserve	769,489	3	807,624	3
Unappropriated earnings	8,283,384	32	6,995,807	31
Other equity	(1,163,049)	(5)	(769,490)	(3)
<b>Total equity attributable to owners of the Corporation</b>	<b>13,778,685</b>	<b>54</b>	<b>12,752,176</b>	<b>56</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>625,175</b>	<b>3</b>	<b>524,841</b>	<b>2</b>
<b>Total equity</b>	<b>14,403,860</b>	<b>57</b>	<b>13,277,017</b>	<b>58</b>
<b>TOTAL</b>	<b>\$ 25,680,790</b>	<b>100</b>	<b>\$ 22,778,107</b>	<b>100</b>

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

(With Deloitte & Touche auditors' report dated March 24, 2020)

## MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
SALES (Notes 4, 21 and 28)	\$ 28,243,214	100	\$ 25,852,942	100
COST OF GOODS SOLD (Notes 9, 22 and 28)	<u>24,423,564</u>	<u>87</u>	<u>22,463,953</u>	<u>87</u>
GROSS PROFIT	3,819,650	13	3,388,989	13
UNREALIZED GAIN ON TRANSACTIONS WITH ASSOCIATES	<u>(83,322)</u>	<u>-</u>	<u>(170,760)</u>	<u>(1)</u>
UNREALIZED GROSS PROFIT	<u>3,736,328</u>	<u>13</u>	<u>3,218,229</u>	<u>12</u>
OPERATING EXPENSES (Note 22)				
Selling and marketing expenses (Note 28)	1,088,300	4	1,058,674	4
General and administrative expenses	<u>937,202</u>	<u>3</u>	<u>808,275</u>	<u>3</u>
Total operating expenses	<u>2,025,502</u>	<u>7</u>	<u>1,866,949</u>	<u>7</u>
PROFIT FROM OPERATIONS	<u>1,710,826</u>	<u>6</u>	<u>1,351,280</u>	<u>5</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 28)	80,674	-	61,878	-
Other income	65,129	-	102,985	-
Net foreign exchange gains (losses) (Note 4)	78,155	-	175,345	1
Gain (loss) on fair value changes of financial assets at fair value through profit or loss (Note 4)	10,549	-	(30,716)	-
Share of profit of associates (Note 4)	1,350,284	5	1,066,133	4
Interest expense	(43,874)	-	(50,987)	-
Other expenses	<u>(48,063)</u>	<u>-</u>	<u>(54,263)</u>	<u>-</u>
Total non-operating income and expenses	<u>1,492,854</u>	<u>5</u>	<u>1,270,375</u>	<u>5</u>
PROFIT BEFORE INCOME TAX	3,203,680	11	2,621,655	10
INCOME TAX EXPENSE (Notes 4 and 23)	<u>702,696</u>	<u>2</u>	<u>875,818</u>	<u>3</u>
NET PROFIT FOR THE YEAR	<u>2,500,984</u>	<u>9</u>	<u>1,745,837</u>	<u>7</u>

(Continued)

# MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 19)	\$ (19,797)	-	\$ (10,732)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	3,959	-	4,240	-
	<u>(15,838)</u>	<u>-</u>	<u>(6,492)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(419,746)</u>	<u>(2)</u>	<u>54,266</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(435,584)</u>	<u>(2)</u>	<u>47,774</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,065,400</u>	<u>7</u>	<u>\$ 1,793,611</u>	<u>7</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 2,502,443	9	\$ 1,708,835	7
Non-controlling interests	<u>(1,459)</u>	<u>-</u>	<u>37,002</u>	<u>-</u>
	<u>\$ 2,500,984</u>	<u>9</u>	<u>\$ 1,745,837</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Corporation	\$ 2,093,046	7	\$ 1,764,969	7
Non-controlling interests	<u>(27,646)</u>	<u>-</u>	<u>28,642</u>	<u>-</u>
	<u>\$ 2,065,400</u>	<u>7</u>	<u>\$ 1,793,611</u>	<u>7</u>
EARNINGS PER SHARE (Note 24)				
Basic	<u>\$ 8.37</u>		<u>\$ 5.72</u>	
Diluted	<u>\$ 8.33</u>		<u>\$ 5.69</u>	

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

(With Deloitte & Touche auditors' report dated March 24, 2020)

(Concluded)

**MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES**

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

	Equity Attributable to Owners of the Corporation											
	Common Shares (Note 20)	Capital Surplus (Note 20)			Retained Earnings (Note 20)			Other Equity		Total	Non-controlling Interests	Total
		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, 2018	\$ 2,989,838	\$ 416,290	\$ 258	\$ 2,232,113	\$ 264,429	\$ 6,489,871	\$ (832,116)	\$ 24,492	\$ 11,585,175	\$ 496,199	\$ 12,081,374	
Effect of retrospective application	-	-	-	-	-	24,492	-	(24,492)	-	-	-	
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	2,989,838	416,290	258	2,232,113	264,429	6,514,363	(832,116)	-	11,585,175	496,199	12,081,374	
Appropriation of 2017 earnings												
Legal reserve	-	-	-	79,736	-	(79,736)	-	-	-	-	-	
Special reserve	-	-	-	-	543,195	(543,195)	-	-	-	-	-	
Cash dividends distributed by the Corporation	-	-	-	-	-	(597,968)	-	-	(597,968)	-	(597,968)	
Net profit for the year ended December 31, 2018	-	-	-	-	-	1,708,835	-	-	1,708,835	37,002	1,745,837	
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(6,492)	62,626	-	56,134	(8,360)	47,774	
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	1,702,343	62,626	-	1,764,969	28,642	1,793,611	
BALANCE AT DECEMBER 31, 2018	2,989,838	416,290	258	2,311,849	807,624	6,995,807	(769,490)	-	12,752,176	524,841	13,277,017	
Appropriation of 2018 earnings												
Legal reserve	-	-	-	170,884	-	(170,884)	-	-	-	-	-	
Reversal of special reserve	-	-	-	-	(38,135)	38,135	-	-	-	-	-	
Cash dividends distributed by the Corporation	-	-	-	-	-	(1,046,443)	-	-	(1,046,443)	-	(1,046,443)	
Difference between carrying amount and consideration on the actual acquisition or disposal of equity interests in subsidiaries	-	-	(258)	-	-	(19,836)	-	-	(20,094)	20,094	-	
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	107,886	107,886	
Net profit for the year ended December 31, 2019	-	-	-	-	-	2,502,443	-	-	2,502,443	(1,459)	2,500,984	
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(15,838)	(393,559)	-	(409,397)	(26,187)	(435,584)	
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	2,486,605	(393,559)	-	2,093,046	(27,646)	2,065,400	
BALANCE AT DECEMBER 31, 2019	\$ 2,989,838	\$ 416,290	\$ -	\$ 2,482,733	\$ 769,489	\$ 8,283,384	\$ (1,163,049)	\$ -	\$ 13,778,685	\$ 625,175	\$ 14,403,860	

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

(With Deloitte & Touche auditors' report dated March 24, 2020)

# MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 3,203,680	\$ 2,621,655
Adjustments for:		
Depreciation expenses	260,726	241,764
Amortization expenses	10,246	9,086
Expected credit loss recognized on trade receivables	3,858	7,237
Net (gain) loss on fair value changes of financial assets at fair value through profit or loss	(10,549)	30,716
Interest expense	43,874	50,987
Interest income	(80,674)	(61,878)
Dividend income	(4,813)	(5,452)
Share of profit of associates	(1,350,284)	(1,066,133)
Loss on disposal of property, plant and equipment	2,310	3,127
Write-downs (reversal of write-downs) of inventories	212	(18,577)
Unrealized gain on transactions with associates	83,322	170,760
Unrealized net loss on foreign currency exchange	35,068	12,086
Amortization of long-term prepayments for leases	-	8,217
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(568,565)	62,763
Notes receivable	6,807	12,778
Trade receivables	(24,800)	(723,672)
Other receivables	(184,274)	(6,740)
Inventories	(376,793)	(346,908)
Other current assets	(18,116)	102,388
Notes and trade payables	652,414	(129,151)
Other payables	3,477	34,190
Other current liabilities	(14,316)	(23,434)
Net defined benefit liabilities	2,688	3,361
Cash generated from operations	1,675,498	989,170
Interest received	71,674	58,321
Dividends received	14,497	12,217
Interest paid	(42,562)	(49,212)
Income tax paid	(508,759)	(274,569)
Net cash generated from operating activities	<u>1,210,348</u>	<u>735,927</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net cash inflow on acquisitions of associates	61,150	-
Payments for property, plant and equipment	(271,411)	(91,460)
Proceeds from disposal of property, plant and equipment	1,942	7,060
Decrease in refundable deposits	552	42
Other receivables - increase from related parties	(37,379)	-
Proceeds from disposal of intangible assets	83	-

(Continued)

# MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

	For the Year Ended December 31	
	2019	2018
Acquisitions of right-of-use assets	\$ (5,962)	\$ -
Payments for intangible assets	(3,249)	(10,879)
Decrease (increase) in other non-current assets	(4,430)	444
Increase in prepayments for equipment	<u>(17,815)</u>	<u>(31,269)</u>
Net cash used in investing activities	<u>(276,519)</u>	<u>(126,062)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term bank loans	27,777	187,900
Proceeds from long-term borrowings	299,601	15,672
Repayments of long-term bank loans	(111,359)	(121,621)
Increase (decrease) in refundable deposits	1,912	(1,131)
Repayment of the principal portion of lease liabilities	(50,269)	-
Dividends paid to owners of the Corporation	(1,046,443)	(597,968)
Changes in non-controlling interests	<u>69,188</u>	<u>-</u>
Net cash used in financing activities	<u>(809,593)</u>	<u>(517,148)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(73,002)</u>	<u>(19,446)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	51,234	73,271
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
	<u>3,220,019</u>	<u>3,146,748</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		
	<u>\$ 3,271,253</u>	<u>\$ 3,220,019</u>

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

(With Deloitte & Touche auditors' report dated March 24, 2020)

(Concluded)

Proposal 2: Adoption of the proposal for distribution of 2019 profits  
(Proposed by the Board of Directors).

Description : According to the Company Act and the Articles of Incorporation of Merida Industry Co., Ltd., the 2019 Earning Distribution Table has been prepared as followed. It was reviewed and approved at the eleventh meeting of the first Audit Committee, and were submitted and passed at the 2nd board meeting in 2020. It is hereby submitted for confirmation:

**MERIDA INDUSTRY CO., LTD.**  
**2019 Earning Distribution Table**

	Unit : NTD\$
Unappropriated earnings, beginning balance	\$5,816,615,628
Less: Adjustment to the Investments Accounted for Using Equity Method	19,835,620
Less: Remeasurement of defined benefit plans recognized in retained earnings directly	15,837,600
Adjusted unappropriated earnings	\$5,780,942,408
Plus: Net Profit of 2019	2,502,442,169
Less: Appropriation of Legal reserve	250,244,217
Less: Appropriation of Special Reserve	393,559,290
Total unappropriated earnings	\$7,639,581,070
Distributed Items	
Cash dividends to shareholders – NTD\$4.2 per share	(1,255,731,960)
Unappropriated earnings, ending balance	\$6,383,849,110

(1) Cash dividends : Total number of outstanding common shares was 298,983,800. Cash dividends to shareholders was NTD\$4.2 per share, the Company plans to distribute dividends of NTD\$1,255,731,960. Each common shareholder will be entitled to receive the cash dividends in dollar amount. The fractional parts would be turned to MERIDA Employee Welfare Committee. Subject to the approval of the General Shareholders' Meeting, the Board of Directors is authorized to determine the ex-dividend date and the distribution date for the cash dividends.

(2) In the event the number of outstanding shares will be affected, the Board is authorized with full power and authority to adjust the distribution percentage, if necessary.

Zeng Songzhu, Chairman    Zeng Songzhu, President    Cai Xueliang, Chief Accountant

Resolution:

## Matters for discussion

Proposal 1: Amendment to the Articles of Incorporation (Proposed by the Board of Directors).

Description: According to the Company Act, the Securities and Exchange Act and the regulations by the competent authority, it is proposed to amend some of the Company's Articles of Association, which were passed by the second board meeting in 2020. The comparison table of the provisions before and after the amendment is hereby proposed as follows for discussion.

Amended articles	Current Articles	Reasons for amendment
<p>Article 8 All the shares of the Company are registered stocks. <a href="#">Directors who represent the company shall</a> sign or seal and number them. The shares are issued after <a href="#">being attested by banks competent to serve as attesters according to the laws.</a></p>	<p>Article 8 All the shares of the Company are registered stocks. Over 3 directors sign or seal and number them. The shares are issued after certified by the competent authority or its ratified issuance registration institution according to the laws.</p>	<p><a href="#">Amended in accordance with laws and regulations.</a></p>
<p>Article 17 The approved resolution matters of shareholders' meeting shall be made into minute book that shall be signed or sealed by chairperson and recorder. The minute book shall be distributed to each shareholder within 20 days after the meeting. The distribution of minute book, financial statement and earnings apportion or loss make-up resolution can be made <a href="#">in accordance with the provisions in the Company Act.</a></p>	<p>Article 17 The approved resolution matters of shareholders' meeting shall be made into minute book that shall be signed or sealed by chairperson and recorder. The minute book shall be distributed to each shareholder within 20 days after the meeting. The distribution of minute book, financial statement and earnings apportion or loss make-up resolution can be made by way of announcement.</p>	<p><a href="#">Amended in accordance with laws and regulations.</a></p>



<p>Article18</p> <p>The Company’s board of directors sets up 9-13 directors who are elected from persons with legal capacity in the shareholders’ meeting. Their tenure of office is 3 years. If they are reelected, they can serve another term. In the quota of above directors, independent directors cannot be less than 3 persons and cannot be less than one fifth of seats for directors.</p> <p>The election of directors adopts candidate nomination system in Article 192-1 of the Company Act. They are elected <u>by the shareholders</u> from the director candidate list by the board of directors.</p> <p>The acceptance, announcement and other matters that should be complied with regarding nomination of director candidates are handled in accordance with the Company Act, Securities Exchange Act and other relevant decrees.</p> <p>Independent directors and non-independent directors shall be elected together and the quota of successful candidates shall be calculated separately.</p> <p>The Company’s total shares held by all directors shall comply with the provisions of “Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies” promulgated by competent authority of securities.</p>	<p>Article18</p> <p>The Company’s board of directors sets up 9-13 directors who are elected from persons with legal capacity in the shareholders’ meeting. Their tenure of office is 3 years. If they are reelected, they can serve another term. In the quota of above directors, independent directors cannot be less than 3 persons and cannot be less than one fifth of seats for directors.</p> <p>The election of <u>independent</u> directors adopts candidate nomination system in Article 192-1 of the Company Act. They are elected from <u>independent</u> director candidate list by the board of directors.</p> <p>The acceptance, announcement and other matters that should be complied with regarding nomination of <u>independent</u> director candidates are handled in accordance with the Company Act, Securities Exchange Act and other relevant decrees.</p> <p>Independent directors and non-independent directors shall be elected together and the quota of successful candidates shall be calculated separately.</p> <p>The Company’s total shares held by all directors shall comply with the provisions of “Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies” promulgated by competent authority of securities.</p>	<p>Amended in accordance with Article 192-1 of the Company Act and the directive no. 1080311451 by the Financial Supervisory Commission on April 25, 2019.</p>
<p>Article21</p> <p>When vacancy of directors has reached one third, <u>or when the independent directors have all been discharged,</u> board of directors shall convene interim shareholders’ meeting for by-election within 60 days. The tenure of office for the directors of by-election is within the limit of tenure of office for the original directors.</p>	<p>Article21</p> <p>When vacancy of directors has reached one third, board of directors shall convene interim shareholders’ meeting for by-election within 60 days. The tenure of office for the directors of by-election is within the limit of tenure of office for the original directors.</p>	<p><u>Amended in accordance with laws and regulations.</u></p>

<p><u>Article 26-1</u>  <u>The company may set up functional committees under the board of directors. The number of members, effective period, powers and other matters of such committees shall be stipulated in the organizational charters of each committee and shall be implemented upon the resolution of the board of directors.</u></p>		<p>Added article.</p>
<p>Article37  The articles of incorporation were formulated on September 8, 1972. It was amended for the 1st time on May 14, 1974. It was amended for the 2nd time on July 16, 1979. It was amended for the 3rd time on March 10, 1980. It was amended for the 4th time on June 29, 1980. It was amended for the 5th time on August 31, 1981. It was amended for the 6th time on April 11, 1982. It was amended for the 7th time on May 29, 1983. It was amended for the 8th time on May 6, 1984. It was amended for the 9th time on July 1, 1985. It was amended for the 10th time on August 3, 1985. It was amended for the 11th time on July 2, 1987. It was amended for the 12th time on June 25, 1988. It was amended for the 13th time on September 11, 1989. It was amended for the 14th time on September 11, 1989. It was amended for the 15th time on November 29, 1990. It was amended for the 16th time on December 29, 1990. It was amended for the 17th time on May 5, 1991. It was amended for the 18th time on April 26, 1992. It was amended for the 19th time on June 15, 1993. It was amended for the 20th time on June 6, 1994. It was amended for the 21st time on June 20, 1995. It was amended for the 22nd time on June 24, 1997. It was amended for the 23rd time on June 15, 1998. It was amended for the 24th time on June 16, 1999. It was amended for the 25th time on June 16, 2000.</p>	<p>Article37  The articles of incorporation were formulated on September 8, 1972. It was amended for the 1st time on May 14, 1974. It was amended for the 2nd time on July 16, 1979. It was amended for the 3rd time on March 10, 1980. It was amended for the 4th time on June 29, 1980. It was amended for the 5th time on August 31, 1981. It was amended for the 6th time on April 11, 1982. It was amended for the 7th time on May 29, 1983. It was amended for the 8th time on May 6, 1984. It was amended for the 9th time on July 1, 1985. It was amended for the 10th time on August 3, 1985. It was amended for the 11th time on July 2, 1987. It was amended for the 12th time on June 25, 1988. It was amended for the 13th time on September 11, 1989. It was amended for the 14th time on September 11, 1989. It was amended for the 15th time on November 29, 1990. It was amended for the 16th time on December 29, 1990. It was amended for the 17th time on May 5, 1991. It was amended for the 18th time on April 26, 1992. It was amended for the 19th time on June 15, 1993. It was amended for the 20th time on June 6, 1994. It was amended for the 21st time on June 20, 1995. It was amended for the 22nd time on June 24, 1997. It was amended for the 23rd time on June 15, 1998. It was amended for the 24th time on June 16, 1999. It was amended for the 25th time on June 16, 2000.</p>	

<p>It was amended for the 26th time on June 20, 2001. It was amended for the 27th time on June 25, 2002. It was amended for the 28th time on June 26, 2003. It was amended for the 29th time on June 25, 2004. It was amended for the 30th time on June 28, 2005. It was amended for the 31st time on June 23, 2006. It was amended for the 32nd time on March 22, 2007. It was amended for the 33rd time on June 27, 2008. It was amended for the 34th time on June 26, 2009. It was amended for the 35th time on June 29, 2010. It was amended for the 36th time on June 28, 2012. It was amended for the 37th time on June 28, 2013. It was amended for the 38th time on June 26, 2014. It was amended for the 39th time on June 22, 2015. It was amended for the 40th time on June 22, 2016. It was amended for the 41st time on June 26, 2017. It was amended for the 42nd time on June 26, 2018. <a href="#">It was amended for the 43rd time on June 24, 2020.</a></p>	<p>It was amended for the 26th time on June 20, 2001. It was amended for the 27th time on June 25, 2002. It was amended for the 28th time on June 26, 2003. It was amended for the 29th time on June 25, 2004. It was amended for the 30th time on June 28, 2005. It was amended for the 31st time on June 23, 2006. It was amended for the 32nd time on March 22, 2007. It was amended for the 33rd time on June 27, 2008. It was amended for the 34th time on June 26, 2009. It was amended for the 35th time on June 29, 2010. It was amended for the 36th time on June 28, 2012. It was amended for the 37th time on June 28, 2013. It was amended for the 38th time on June 26, 2014. It was amended for the 39th time on June 22, 2015. It was amended for the 40th time on June 22, 2016. It was amended for the 41st time on June 26, 2017. It was amended for the 42nd time on June 26, 2018.</p>	<p>Amended dates.</p>
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Resolution:

Proposal 2: Amendment to the rules for election of directors (Proposed by the Board of Directors).

Description: In accordance with the Company Act, the Securities and Exchange Act and the Financial Supervisory Commission’s directive no. 1080311451 April 25, 2019, it is proposed to amend some of the provisions in the Company's Rules for the Election of Directors. As approved by the Company's second board meeting in 2020, the comparison table of the provisions before and after the amendment is as follows. It is hereby submitted for discussion:

Amended articles	Current Articles	Reasons for amendment
<p>Article 1 The election of directors of the Company shall be conducted in accordance with the Rules, <u>unless otherwise specified by laws and regulations or the Articles of Incorporation.</u></p>	<p>Article 1 The election of directors of the Company shall be conducted in accordance with the Rules.</p>	<p>Amended in accordance with laws and regulations.</p>
<p>Article 2 The cumulative voting method shall be used for election of the directors at the Company. Attendance card numbers printed on the ballots may be used instead of recording the names of voting shareholders. Unless otherwise stipulated in the Articles of Incorporation, each share will have voting rights in number equal to the directors to be elected, and may be cast for a single candidate or split among multiple candidates. The election of directors adopts candidate nomination system in Article 192-1 of the Company Act. They are elected <u>by the shareholders</u> from <u>the</u> director candidate list by the board of directors. Independent directors and non-independent directors shall be elected together and the quota of successful candidates shall be calculated separately.</p>	<p>Article 2 The cumulative voting method shall be used for election of the directors at the Company. Attendance card numbers printed on the ballots may be used instead of recording the names of voting shareholders. Unless otherwise stipulated in the Articles of Incorporation, each share will have voting rights in number equal to the directors to be elected, and may be cast for a single candidate or split among multiple candidates. The election of <u>independent</u> directors adopts candidate nomination system in Article 192-1 of the Company Act. They are elected <u>in the shareholders’ meeting</u> from <u>independent</u> director candidate list by the board of directors. Independent directors and non-independent directors shall be elected together and the quota of successful candidates shall be calculated separately.</p>	<p>Amended in accordance with Article 192-1 of the Company Act and the directive no. 1080311451 by the Financial Supervisory Commission on April 25, 2019.</p>

<p>Article 3 The number of directors will be as specified in this Company's articles of incorporation, with voting rights separately calculated for independent and non-independent director positions. Those receiving ballots representing the highest numbers of voting rights will be elected sequentially according to their respective numbers of votes. When two or more persons receive the same number of votes, thus exceeding the specified number of positions, they shall draw lots to determine the winner, with the chair drawing lots on behalf of any person not in attendance. Appointed directors who violate the Item 3 in Article 26-3 of the Securities and Exchange Act shall certainly be discharged.</p>	<p>Article 3 <u>The directors of the Company shall be deemed competent and elected by the shareholders' meeting.</u> The number of directors will be as specified in this Company's articles of incorporation, with voting rights separately calculated for independent and non-independent director positions. Those receiving ballots representing the highest numbers of voting rights will be elected sequentially according to their respective numbers of votes. When two or more persons receive the same number of votes, thus exceeding the specified number of positions, they shall draw lots to determine the winner, with the chair drawing lots on behalf of any person not in attendance. <u>Directors elected according to the preceding rules who are found to not match their provided personal data information or are unfit for the position according to the relevant laws and regulations, the vacancies shall be filled by the candidates who gain the second most votes to them in the original election.</u> Appointed directors who violate the Item 3 in Article 26-3 of the Securities and Exchange Act <u>are applicable to the preceding rule and</u> shall certainly be discharged.</p>	<p>Amended in accordance with laws and regulations.</p>
<p>Article 4 Before the election begins, the chair shall appoint a number of persons to perform the respective duties of vote monitoring and counting personnel, <u>among which the monitoring personnel should be with shareholder status.</u> The ballot boxes shall be prepared by the board of directors and publicly checked by the vote monitoring personnel before voting commences.</p>	<p>Article 4 Before the election begins, the chair shall appoint a number of persons with shareholder status to perform the respective duties of vote monitoring and counting personnel. The ballot boxes shall be prepared by the board of directors and publicly checked by the vote monitoring personnel before voting commences.</p>	<p>Amended in accordance with laws and regulations.</p>
<p>Article 8 Should there be any doubts about the ballots, the monitoring personnel shall verify whether the votes are invalid. The invalid ballots shall be placed separately. After the voting is completed, the ballots shall be counted on the spot. After checking by the monitoring personnel, the chairman <u>or his appointed person</u> shall announce the result on the spot.</p>	<p>Article 8 Should there be any doubts about the ballots, the monitoring personnel shall verify whether the votes are invalid. The invalid ballots shall be placed separately. After the voting is completed, the ballots shall be counted on the spot. After checking by the monitoring personnel, the chairman shall announce the result on the spot.</p>	<p>Amended in accordance with laws and regulations.</p>

<p>Article 9 The elected directors shall fill in the Consent to Act as Director, and the company shall register with the competent authority in accordance with the laws and regulations. <a href="#">Those who fail to submit the Consent within the time limit shall be deemed unwilling to take office and to abandon their qualification.</a></p>	<p>Article 9 The elected directors shall fill in the Consent to Act as Director, and the company shall register with the competent authority in accordance with the laws and regulations.</p>	<p>Amended in accordance with laws and regulations.</p>
<p>Article 11 These Rules were passed by the Regular Shareholders' Meeting and implemented on May 20, 1986. It was amended for the first time on June 15, 1998. It was amended for the second time on June 25, 2002. It was amended for the third time on June 23, 2006. It was amended for the fourth time on June 26, 2009. It was amended for the fifth time on June 26, 2014. It was amended for the sixth time on June 26, 2018. <a href="#">It was amended for the seventh time on June 24, 2020.</a></p>	<p>Article 11 These Rules were passed by the Regular Shareholders' Meeting and implemented on May 20, 1986. It was amended for the first time on June 15, 1998. It was amended for the second time on June 25, 2002. It was amended for the third time on June 23, 2006. It was amended for the fourth time on June 26, 2009. It was amended for the fifth time on June 26, 2014. It was amended for the sixth time on June 26, 2018.</p>	<p>Amended dates.</p>

Resolution:

**Extemporary Motions**

**Meeting Adjourned**

## Appendix

1. Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting:

The earnings distribution case proposed or adopted at the most recent shareholders' meeting only allots cash dividends but is not involved in stock dividend distribution. Besides, the Company has not made public the financial forecast information in 2019, so this item is not applicable.

2. Shareholding situation of the directors:

In accordance with Article 26 in Securities Exchange Act and “Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies,” the total shares held by all directors of the Company cannot be less than 12,000,000 shares. All directors of the Company held a total of 75,952,415 shares until April 26, 2020 (the date for suspension of share transfer), which complies with regulations. The shares held by each director are listed below :

Names of directors	Shares held in time of election	Shares held on the date for suspension of share transfer	Remarks
Zeng Song-Zhu	48,664,715	48,664,715	
Zeng Song-Ling	5,692,934	5,692,934	
Zenglu Min-hua	8,047,819	8,477,819	
Qiu Li-qing	5,412,000	5,412,000	
Dinghong Investment Co., Ltd. Representative: Zheng Wen-xiang	390,022	390,022	
Dinghong Investment Co., Ltd. Representative: Cai Xue-liang			
Dinghong Investment Co., Ltd. Representative: Yuan Qi-bin			
Dinghong Investment Co., Ltd. Representative:Lai Ru-ding			
Dingcheng Investment Co., Ltd. Representative:Zeng Hui-juan	7,314,925	7,314,925	
Chen Shui-jin	0	0	Independent Director
Chen Jian-nan	0	0	Independent Director
Li Zong-ying	0	0	Independent Director
Zhuang Wen-jing	0	0	Independent Director
Total	75,522,415	75,952,415	

Note: The Company simultaneously elects more than 2 independent directors. Shareholding ratio of all directors other than independent directors calculated by rates is decrease to 80%.

3. Proposal information by the shareholders with more than 1% shares of total shares issued by the Company:

(1) In accordance with Article 172-1 of the Company Act, the period for accepting shareholders' proposals by this shareholders' regular meeting from April 17, 2020 to April 27, 2020, which has been announced in market observatory post system in accordance with the laws and regulations.

(2) During the abovementioned period, we did not receive proposals from shareholders who hold more than 1% shares in total shares issued by the Company.



## Rules of Procedure for Shareholders' Meeting

- Article1 Unless otherwise provided by statutes or articles of incorporation, the shareholder's meeting of the Company shall be held in line with this regulation.
- Article2 Shareholders (or their agents) of the Company are asked to wear attendance cards, where the number of equities is calculated by sign-in cards handed over in time of sign-in in addition to the shares of voting right exercised by written form or electronic way.
- Article3 Unless otherwise provided by statutes, each shareholder of the Company has a voting right for each share.
- Article4 The shareholder's meeting of the Company shall be convened in the venue where the Company is located or where is conducive for the shareholders to attend and suitable for the shareholders to convene.
- Article5 If the board of directors convenes the shareholders' meeting, the president shall be the chairperson. When the president asks for leave or cannot carry out the duty for some reason, it shall be handled in line with the provisions in Article 208 of the Company Act.  
If the shareholders' meeting is convened by person who is entitled to convene other than the board of directors, the convener shall serve as the chairperson.
- Article6 The company may designate the appointed lawyer, accountant or relevant personnel to attend the shareholders' meeting as a nonvoting delegate.
- Article7 The meeting affairs personnel who handle the shareholders' meeting shall wear badge or armband.
- Article8 The Company shall make an audio or video record of the whole course of the shareholders' meeting and keep it at least for 1 year.
- Article9 When the meeting time comes, the chairperson shall declare to start the meeting. However, when the shareholders representing no more than half of the total issued shares attend, the chairperson may declare postpone the meeting. It cannot be postponed more than twice, and the total postponed time cannot exceed 1 hour. When the meeting is postponed twice, the quota is still insufficient and shareholders representing one third of total issued shares have attended, tentative resolution may be made in line with Paragraph 1, Article 175 in the Company Act.  
Before the end of the meeting, if the number of shares represented by attended shareholders has reached more than half of the total issued shares, the chairperson may resubmit the tentative resolution to the general meeting for voting in line with Article 174 of the Company Act.
- Article10 If the shareholders' meeting is convened by board of directors, the agenda shall be set by board of directors. The meeting shall

be carried out in line with scheduled agenda and cannot be changed without resolution of the shareholders' meeting.

If the shareholders' meeting is convened by convener other than board of directors, the provisions of preceding paragraph apply mutatis mutandis. Before the end of procedure (including extempore motion) for the agenda scheduled in preceding 2 paragraphs, the chairperson cannot declare the meeting adjourned without resolution.

After the meeting is ended, the shareholders cannot reelect the chairperson to continue the meeting at the original venue or other venues. However, if the chairperson violates the rules of procedure and declare to end the meeting, one person may be elected as the chairperson under the consent of half of the attended shareholders with voting rights for the meeting being continued.

Article11 When the meeting is ongoing, the chairperson may set time to declare for rest.

Article12 Before the attended shareholder speaks, it is necessary to first fill in speech notes stating speech gist, shareholder's account number, (or attendance card number) and shareholder's name. The chairperson shall decide the speech order.

The attended shareholders who only submit speech notes but do not speak are deemed as not speaking. If the speech content and the record of speech note are inconsistent, the speech content shall prevail.

When the attended shareholder speaks, other shareholders cannot speak to interfere unless consent of the chairperson and speaking shareholder is obtained. Violators shall be prohibited by the chairperson.

Article13 When every shareholder speaks regarding the same motion, it cannot exceed twice unless consented by the chairperson. Every time cannot exceed 5 minutes.

The motions shall be discussed in line with the motion order scheduled by the agenda.

In case of violating procedure or exceeding beyond the topic of discussion, the chairperson may prohibit their speech.

Article14 When a judicial person is entrusted to attend shareholders' meeting, the judicial person can only designate one person as the representative. When judicial shareholder designates more than 2 persons to attend shareholders' meeting as the representatives, only one can be chosen to speak for the same motion.

Article15 After the attended shareholder speaks, chairperson may reply in person or designate relevant personnel to reply.

Article16 When discussing the motions, the chairperson may declare to end the discussion at the right time. When necessary, the chairperson

may declare to stop discussion and submit for voting.

Article 17 When the Company holds shareholders' meeting, the voting rights shall be exercised by electronic way and may be exercised by written form. When the voting right is exercised by written form or electronic way, the exercising way shall be specified in the convening notice of shareholders' meeting. The shareholders exercising voting right by written form or electronic way are deemed to attend shareholders' meeting in person. However, regarding the amendment of extempore motion and original motion, they are deemed as abstention, so it is proper for the Company to avoid submitting the amendment of extempore motion and original motion.

Regarding the exercising of voting right by written form or electronic way in the preceding paragraph, the expression of intent shall be delivered to the company 2 days before the convening of shareholders' meeting. When the expression of intent is repetitive, the earliest service shall prevail, except that the former expression of intent is declared to be revoked.

After the shareholders exercise voting right by written form or electronic way, those who want to attend shareholders' meeting in person shall revoke the expression of intent for exercising voting right in the preceding paragraph by the same way as exercising voting right 2 days before convening the shareholders' meeting. If the revocation is overdue, the voting right exercised by written form or electronic way shall prevail. If voting right is exercised by written form or electronic way and agent is entrusted by proxies to attend the shareholders' meeting, the voting right exercised by entrusted attended agent shall prevail.

The voting of motion, unless otherwise provided by the Company Act and articles of incorporation, shall pass under the consent of half of the attended shareholders with voting rights. In time of voting, the chairperson or the designated personnel shall announce the total number of voting rights. The shareholders shall vote and on the day after the convening of shareholders' meeting, results of shareholders' consent, objection and abstention are input into market observatory post system. However, if the chairperson queries all attended shareholders for motion with no objection as the result, it is deemed adoption. Its validity is the same as voting. In case of objection (including exercising voting right to object or abstain from voting by written form or electronic form) the way of voting shall be adopted to decide.

When the same motion has amendment or substituted motion, the chairperson set the order of voting together with the original motion.

If one motion among them has been approved, other motions are deemed veto and there is no need for voting any more.

The chairperson shall appoint the vote monitoring and counting personnel for motion voting, but the vote monitoring personnel

shall be one of the shareholders.

The voting counting work of shareholders' meeting voting or election motion shall be done at the public place in the shareholders' meeting venue. Moreover, after the vote counting is completed, the voting result shall be announced on the spot, including the statistical weight, and records shall be made.

Article18 The chairperson may direct the picket (or security) to help maintain order of meeting place. The picketer (or security) who helps maintaining order on site shall wear the armband with the word "picketer".

Article19 The matters not covered in this regulation shall be handled in accordance with the Company Act or other relevant regulations.

Article20 This regulation comes into force after being approved by shareholders' regular meeting on May 21, 1990. It was amended for the 1st time on June 15, 1998. It was amended for the 2nd time on June 25, 2002. It was amended for the 3rd time on June 23, 2006. It was amended for the 4th time on June 27, 2008. It was amended for the 5th time on June 26, 2014. It was amended for the 6th time on June 22, 2016.

## Articles of Incorporation for Merida Industry Co., Ltd.

### Chapter 1 General

Article 1 The Company is organized in accordance with the provisions concerning Co., Ltd. in the Company Act, named "Merida Industry Co., Ltd."

Article 2 The businesses operated by the Company are as follows:

1. The manufacturing, assembly, deal and external processing of bikes and their parts.
2. The manufacturing, assembly, and deal of auto-bikes and their parts.
3. The manufacturing, assembly, and deal of electric vehicles and their parts.
4. The export, import and deal of speedometer.
5. The manufacturing, assembly, and deal of exercise bikes and their parts.
6. The import and export business of various above products and equipment.
7. Entrust construction companies to build public housing and business building and the rental and sale business.
8. C805050 Industrial plastic product manufacturing business.
9. CC01080 Electronic component manufacturing business.
10. CC01050 Data storage and processing equipment manufacturing business.
11. CA01990 Other non-iron metal basic industry (melting, forging, die-casting, extrusion, wire drawing of zinc, aluminum, magnesium, copper, titanium alloy)
12. CA02990 Other metal product manufacturing business (melting, forging, die-casting, extrusion, wire drawing of zinc, aluminum, magnesium, copper, titanium alloy).
13. ZZ99999 Besides the permitted businesses, businesses not prohibited or restricted by decrees can be operated.

Article 3 Head Office of the Company is located in Changhua County, Taiwan Province. Board of directors may resolve to set up branches at home and abroad when necessary.

Article 4 The announcement method of the Company is done in line with provisions of the Company Act and other relevant decrees.

Article 5 Reinvestment of the Company can exceed over 40% of paid-in capital.

Article 6 With consent by board of directors, the Company can engage in external guarantee business between Businesses.

### Chapter 2 Shares

Article 7 The total capital of the Company is set NT\$3.5 billion, divided into 350 million shares. Every share is NT\$10 only. The board of directors is authorized to issue the unissued shares among them by many

times when necessary. Preferred stocks may be issued for the above stocks.

Article 7-1 (Deleted)

Article 8 All the shares of the Company are registered stocks. Over 3 directors sign or seal and number them. The shares are issued after certified by the competent authority or its ratified issuance registration institution according to the laws.

Article 9 Stock affairs of the Company are handled in accordance with "Criteria Governing Handling of Stock Affairs by Public Stock Companies" unless otherwise provided by decrees and security rules.

Article 10 Share transfer is suspended within 60 days before shareholders regular meeting, within 30 days before interim shareholders' meeting or within 5 days before reference day when the company decides to allot dividend, bonus and other profits.

### Chapter 3 Shareholders' Meeting

Article 11 There are 2 kinds of shareholders' meetings which are regular meeting and interim meeting.

1. Regular meeting is convened once every year, held within 6 months after the end of every fiscal year.
2. Interim meeting shall be convened in line with relevant decrees when necessary.

Article 12 For convening shareholders' regular meeting, the date, venue and proposals of the meeting shall be informed to each shareholder 30 days before the meeting. For convening shareholders' interim meeting, the date, venue and proposals of the meeting shall be informed to each shareholder 15 days before the meeting. However, for shareholders with less than one thousand shares, it may be done by way of announcement.

Article 13 When shareholders cannot attend shareholders' meeting for some reason, they may present proxies printed by the Company, specifying authorization scope and entrusting agents to attend. The measures for the shareholders to entrust for attendance shall be handled in line with provisions in "Rules Governing the Use of Proxies for Attendance at Shareholder Meetings" promulgated by competent authority in addition to complying with the provisions of Article 177 in the Company Act.

Article 14 The chairperson shall serve as the chairperson of the shareholders' meeting convened by the board of directors. When the chairperson asks for leave or cannot exercise functions and powers for some reason, it shall be handled in line with the provisions in Article 208 of the Company Act. If the shareholders' meeting is convened by person who is entitled to convene other than the board of directors, the convener shall serve as the

chairperson. When there are more than 2 conveners, one person among them shall be elected as the chairperson.

Article15 The resolution of shareholders' meeting shall be done with attendance by more than half of the shareholders representing the total issued shares and the consent by more than half of the attended shareholders' voting right, unless otherwise provided by the Company Act.

Article16 Unless otherwise provided by statutes, each shareholder of the Company has a voting right for every share.

Article17 The approved resolution matters of shareholders' meeting shall be made into minute book that shall be signed or sealed by chairperson and recorder. The minute book shall be distributed to each shareholder within 20 days after the meeting. The distribution of minute book, financial statement and earnings apportion or loss make-up resolution can be made by way of announcement.

#### Chapter 4 Board of Directors

Article18 The Company's board of directors sets up 9-13 directors who are elected from persons with legal capacity in the shareholders' meeting. Their tenure of office is 3 years. If they are reelected, they can serve another term.

In the quota of above directors, independent directors cannot be less than 3 persons and cannot be less than one fifth of seats for directors.

The election of independent directors adopts candidate nomination system in Article 192-1 of the Company Act. They are elected from independent director candidate list by the board of directors.

The acceptance, announcement and other matters that should be complied with regarding nomination of independent director candidates are handled in accordance with the Company Act, Securities Exchange Act and other relevant decrees.

Independent directors and non-independent directors shall be elected together and the quota of successful candidates shall be calculated separately.

The Company's total shares held by all directors shall comply with the provisions of "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies" promulgated by competent authority of securities.

Article18-1 The Company sets up Audit Committee in line with provisions of Article 14-4 of Securities Exchange Act, formed by all independent directors. Exercising of function and power and relevant matters regarding Audit Committee and its members are handled by provisions of relevant decrees of competent authority of securities.

Article19 A chairperson shall be elected with attendance of over two thirds of directors and by consent of over half of attended directors. A

vice chairperson can be elected by the same way. The chairperson represents the company externally and internally serves as chairperson of shareholders' meeting and board of directors.

Article20 Function and power of board of directors are as follows:

1. Authorize various important rules and regulations.
2. Decide business policy.
3. Decide budgets and final accounts.
4. Draft earnings apportion or loss make-up.
5. Draft increase or decrease in capital.
6. Acquire or dispose of assets.
7. Decide important choice of persons of the Company.
8. External guarantee business between the same trades.
9. Set up and dissolve the branches of the Company.
10. Ratify the reinvestment business.
11. Other function and power endowed by the Company Act or board of directors.

Execution of the company's business shall be done by the resolution of board of directors except the matters that shall be resolved by shareholders' meeting in accordance the Company Act or relevant decrees.

Article21 When vacancy of directors has reached one third, board of directors shall convene interim shareholders' meeting for by-election within 60 days. The tenure of office for the directors of by-election is within the limit of tenure of office for the original directors.

Article22 Board of directors holds meeting at least once every season. In case of emergency or request by over half of directors, it can be convened any time. The Company's board meeting can be convened by way of writing, E-mail or fax.

Article23 Chairperson serves as chairperson of board of directors. When the chairperson asks for leave or cannot exercise functions and powers for some reason, it shall be handled in accordance with Article 208 of the Company Act.

Article24 When board of directors holds meeting, directors shall attend in person. When directors cannot attend for special affairs, they may present proxies, specifying authorization scope and entrusting one other director as agent to attend. Directors who dwell abroad may entrust other shareholders dwelling domestically in writing to attend board of directors frequently on their behalf. However, they shall apply for registration to competent authority, which applies to change thereto. If board meeting is held by video conferencing, directors who participate in the meeting by video are deemed as attend in person.

Article25 The resolution of board meeting shall be done with attendance of over half of directors and consent by over half of attended



directors unless otherwise provided by the Company Act. The procedure of board meeting shall be made into minute book that shall be signed or sealed by chairperson and recorder. The minute book shall be distributed to each director and supervisor within 20 days after the meeting. The minute book can be made and distributed by electronic way and shall be kept forever in the period of the Company's existence.

Article26 The Company may purchase liability insurance for directors' compensation liability that shall be borne in their business execution scope according to the laws during their tenure of office.

#### Chapter 5 Manager and Staff

Article27 The Company may set several managers who adhere to the policy resolved by board of directors and relevant decrees and comprehensively manage all businesses of the Company and whose appointment, dismissal and remuneration are handled in line with provisions of Article 29 in the Company Act.

Article28 General manager follows the orders by board of directors to comprehensively manage the Company's business. If general manager cannot carry out duties due to some affairs, general manager designates a vice general manager as agent.

Article29 Board of directors decides the Company's organization system and quota for setting up staff of various levels and their appointment way.

#### Chapter 6 Accounting

Article30 The Company's fiscal year starts from January 1 till December 31 every year. At the end of each fiscal year, final accounts shall be carried out.

Article31 Board of directors compiles the following various statistical forms for the Company's annual final accounts according to the laws and submits to shareholders' regular meeting for recognition in line with legal procedures:

1. Business report
2. Financial statement
3. Motion of earnings apportion or loss make-up

#### Chapter 7 Others

Article32 If the Company has earned annual profit, no less than 5% shall be allocated for remuneration of employees and no more than 5% for remuneration of directors. However, if the company still has cumulative loss, make-up amount shall be retained in advance. Employees' remuneration may be given by shares or cash and directors' remuneration shall be given by cash. It shall be done by

the board of directors with more than two thirds of directors' attendance and the consent resolution by over half of attended directors and shall be reported to shareholders' meeting. The objects granted with employee remuneration may include employees of subsidiary companies that comply with certain conditions, setting of which is decided by board of directors.

Article33 Regarding net profit after the annual final accounts, in addition to paying profit-seeking enterprise income tax according to the laws and making up loss of previous years, 10% from the balance shall be allocated as legal reserve. However, when legal reserve has reached the Company's paid-in capital, it will not be allocated anymore and we shall allocate or reverse special reserve according to the laws. If there is still surplus, add cumulative undistributed earnings in previous years and make them distributable earnings. Board of directors drafts earning distribution motion and submits to shareholders' meeting to resolve for apportioning shareholders dividends and bonus. Shareholders' total dividends shall be 10% to 80% of distributable earnings in that year. Wherein, cash dividends shall not be less than 10% of shareholders' total dividends.

Article34 When the Company's directors do the jobs of the Company, regardless of the business profit or loss of the Company, the company may pay remuneration. Board of directors is authorized to agree to their remuneration in line with the level that they participate in the company's operation, contribution value and general standard of the same trade. If the company has earnings, besides independent directors, remuneration shall be distributed in accordance with Article 32 otherwise.

## Chapter 8 Supplementary Provisions

Article35 Organizational rules and important regulations and measures of the Company shall be formulated by board of directors otherwise.

Article36 Matters not covered in the articles of incorporation shall be handled in accordance with Company Act and other relevant decrees.

Article37 The articles of incorporation were formulated on September 8, 1972. It was amended for the 1st time on May 14, 1974. It was amended for the 2nd time on July 16, 1979. It was amended for the 3rd time on March 10, 1980. It was amended for the 4th time on June 29, 1980. It was amended for the 5th time on August 31, 1981. It was amended for the 6th time on April 11, 1982. It was amended for the 7th time on May 29, 1983. It was amended for the 8th time on May 6, 1984. It was amended for the 9th time on July 1, 1985. It was amended for the 10th time on August 3, 1985. It was amended for the 11th time on July 2, 1987. It was amended for the 12th time on June 25, 1988. It was amended for the 13th time on September 11, 1989. It was amended for the 14th time on

September 11, 1989. It was amended for the 15th time on November 29, 1990. It was amended for the 16th time on December 29, 1990. It was amended for the 17th time on May 5, 1991. It was amended for the 18th time on April 26, 1992. It was amended for the 19th time on June 15, 1993. It was amended for the 20th time on June 6, 1994. It was amended for the 21st time on June 20, 1995. It was amended for the 22nd time on June 24, 1997. It was amended for the 23rd time on June 15, 1998. It was amended for the 24th time on June 16, 1999. It was amended for the 25th time on June 16, 2000. It was amended for the 26th time on June 20, 2001. It was amended for the 27th time on June 25, 2002. It was amended for the 28th time on June 26, 2003. It was amended for the 29th time on June 25, 2004. It was amended for the 30th time on June 28, 2005. It was amended for the 31st time on June 23, 2006. It was amended for the 32nd time on March 22, 2007. It was amended for the 33rd time on June 27, 2008. It was amended for the 34th time on June 26, 2009. It was amended for the 35th time on June 29, 2010. It was amended for the 36th time on June 28, 2012. It was amended for the 37th time on June 28, 2013. It was amended for the 38th time on June 26, 2014. It was amended for the 39th time on June 22, 2015. It was amended for the 40th time on June 22, 2016. It was amended for the 41st time on June 26, 2017. It was amended for the 42nd time on June 26, 2018.

Zeng Songzhu, Chairman