

Merida Industry Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2021 and 2020 and
Independent Auditors' Report**

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, 2021 and 2020, 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 (collectively referred to as the “financial statements”).

In our opinion, based on our audits and the reports of other auditors (refer to the Other Matter section of this report), the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021 and 2020, 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. Based on our audits and the report of other auditors, 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, 2021. 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.

The key audit matter identified in the Corporation's financial statements for the year ended December 31, 2021 is as follows:

Revenue Recognition

The Corporation's sales revenue mainly comes from the manufacture and sale of bicycles, e-bikes, and bicycle components. As export revenue from the sale of e-bikes for the year ended December 31, 2021 accounted for a significant proportion of sales revenue, recognition of sales revenue from the sale of e-bikes has been identified as a key audit matter. For the accounting policies on the recognition of sales revenue, refer to Note 4.

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

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

Other Matter

We did not audit the financial statements of some of the investees accounted for using the equity method as of and for the years ended December 31, 2021 and 2020, 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\$17,065,507 thousand and NT\$13,544,791 thousand, accounting for 53% and 51% of the Corporation's total assets as of December 31, 2021 and 2020, respectively. The share of profit of associates was NT\$4,336,070 thousand and NT\$3,359,564 thousand, accounting for 74% and 67% of the Corporation's total net income before tax for the years ended December 31, 2021 and 2020, 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, 2021 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 23, 2022

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, 2021		December 31, 2020	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Notes 4 and 6(1))	\$ 1,502,477	5	\$ 1,528,092	6
Financial assets at fair value through profit or loss - current (Notes 4 and 6(2))	644,638	2	1,563,734	6
Notes receivable (Notes 4 and 6(15))	16,696	-	6,954	-
Trade receivables (Notes 4, 6(3) and 6(15))	80,906	-	142,585	1
Trade receivables from related parties (Notes 4, 6(3), 6(15) and 7)	1,680,325	6	1,685,153	6
Other receivables (Notes 4 and 7)	92,457	-	149,154	1
Inventories (Notes 4, 5 and 6(4))	5,211,267	16	2,780,043	11
Other current assets	543,288	2	38,291	-
Total current assets	9,772,054	31	7,894,006	31
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 6(5))	92,620	-	92,620	-
Investments accounted for using the equity method (Notes 4 and 6(6))	20,960,030	65	17,323,550	65
Property, plant and equipment (Notes 4 and 6(7))	971,424	3	1,003,876	4
Right-of-use assets (Notes 4 and 6(8))	2,459	-	3,529	-
Investment properties (Notes 4 and 6(9))	34,739	-	34,836	-
Intangible assets (Notes 4 and 6(10))	13,202	-	13,390	-
Deferred tax assets (Notes 4 and 6(17))	134,832	1	76,068	-
Prepayments for equipment	55,073	-	26,066	-
Refundable deposits (Note 4)	4,391	-	2,976	-
Total non-current assets	22,268,770	69	18,576,911	69
TOTAL	\$ 32,040,824	100	\$ 26,470,917	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term bank loans (Note 6(11))	\$ 2,165,706	7	\$ 1,161,358	4
Contract liabilities - current (Notes 4, 6(15) and 7)	2,413,939	8	160,028	1
Trade payables	3,941,737	12	4,583,041	18
Trade payables to related parties (Note 7)	73,118	-	112,664	-
Other payables (Note 6(12))	796,120	2	705,254	3
Current tax liabilities (Notes 4 and 6(17))	328,947	1	108,191	-
Lease liabilities - current (Notes 4 and 6(8))	1,370	-	2,870	-
Other current liabilities	14,871	-	3,636	-
Total current liabilities	9,735,808	30	6,837,042	26
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 6(17))	4,346,780	14	3,423,416	13
Lease liabilities-non-current (Notes 4 and 6(8))	1,029	-	567	-
Net defined benefit liabilities (Notes 4 and 6(13))	160,637	1	108,391	-
Guarantee deposits received	267	-	267	-
Credit balance of investments accounted for using the equity method (Notes 4 and 6(6))	41,053	-	67,098	-
Total non-current liabilities	4,549,766	15	3,599,739	13
Total liabilities	14,285,574	45	10,436,781	39
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION				
Ordinary shares	2,989,838	9	2,989,838	11
Capital surplus				
Share premium from issuance of ordinary shares	416,290	1	416,290	2
Retained earnings				
Legal reserve	3,135,227	10	2,732,977	10
Special reserve	1,674,362	5	1,163,048	4
Unappropriated earnings	12,004,319	38	10,406,346	40
Other equity	(2,464,786)	(8)	(1,674,363)	(6)
Total equity	17,755,250	55	16,034,136	61
TOTAL	\$ 32,040,824	100	\$ 26,470,917	100

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

(With Deloitte & Touche auditors' report dated March 23, 2022))

MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31			
	2021		2020	
	Amount	%	Amount	%
SALES (Notes 4, 6(15) and 7)	\$ 23,434,868	100	\$ 20,229,413	100
COST OF GOODS SOLD (Notes 6(4), 6(16) and 7)	<u>21,324,979</u>	<u>91</u>	<u>18,422,627</u>	<u>91</u>
GROSS PROFIT	2,109,889	9	1,806,786	9
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	<u>(186,227)</u>	<u>(1)</u>	<u>447,879</u>	<u>2</u>
REALIZED GROSS PROFIT	<u>1,923,662</u>	<u>8</u>	<u>2,254,665</u>	<u>11</u>
OPERATING EXPENSES (Notes 6(16) and 7)				
Selling and marketing expenses	514,301	2	499,060	2
General and administrative expenses	<u>433,419</u>	<u>2</u>	<u>361,186</u>	<u>2</u>
Total operating expenses	<u>947,720</u>	<u>4</u>	<u>860,246</u>	<u>4</u>
PROFIT FROM OPERATIONS	<u>975,942</u>	<u>4</u>	<u>1,394,419</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Notes 4 and 7)	20,409	-	27,928	-
Technical service and royalty income (Note 7)	79,556	-	66,165	-
Other income	65,837	-	78,596	-
Net foreign exchange gains (losses) (Notes 4 and 13)	155,223	1	(106,578)	(1)
Gain on fair value changes of financial assets at fair value through profit or loss (Note 4)	(5,639)	-	23,743	-
Share of profit of subsidiaries and associates (Notes 4 and 6(6))	4,644,140	20	3,580,526	18
Interest expense	(10,491)	-	(4,586)	-
Other expenses (Note 6(16))	<u>(34,247)</u>	<u>-</u>	<u>(29,069)</u>	<u>-</u>
Total non-operating income and expenses	<u>4,914,788</u>	<u>21</u>	<u>3,636,725</u>	<u>17</u>
PROFIT BEFORE INCOME TAX	5,890,730	25	5,031,144	24
INCOME TAX EXPENSE (Notes 4 and 6(17))	<u>1,241,228</u>	<u>5</u>	<u>1,037,827</u>	<u>5</u>
NET PROFIT FOR THE YEAR	<u>4,649,502</u>	<u>20</u>	<u>3,993,317</u>	<u>19</u>

(Continued)

MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31			
	2021		2020	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Note 4)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 6(13))	\$ (56,347)	-	\$ 37,111	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 6(17))	<u>11,269</u>	<u>-</u>	<u>(7,422)</u>	<u>-</u>
	<u>(45,078)</u>	<u>-</u>	<u>29,689</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	(582,662)	(2)	(640,438)	(3)
Share of the other comprehensive income (loss) of associates (Note 6(6))	<u>(207,761)</u>	<u>(1)</u>	<u>129,124</u>	<u>1</u>
	<u>(790,423)</u>	<u>(3)</u>	<u>(511,314)</u>	<u>(2)</u>
Other comprehensive loss for the year, net of income tax	<u>(835,501)</u>	<u>(4)</u>	<u>(481,625)</u>	<u>(3)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,814,001</u>	<u>16</u>	<u>\$ 3,511,692</u>	<u>16</u>
EARNINGS PER SHARE (Note 6(18))				
Basic	<u>\$ 15.55</u>		<u>\$ 13.36</u>	
Diluted	<u>\$ 15.48</u>		<u>\$ 13.27</u>	

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

(With Deloitte & Touche auditors' report dated March 23, 2022))

(Concluded)

MERIDA INDUSTRY CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands of New Taiwan Dollars)**

	Common Shares (Note 6(14))	Capital Surplus Share Premium from Issuance of Common Share (Note 6(14))	Retained Earnings (Note 6(14))			Other Equity (Note 4) Exchange Differences on Translating the Financial Statements of Foreign Operations	Total
			Legal Reserve	Special Reserve	Unappropriated Earnings		
BALANCE AT JANUARY 1, 2020	\$ 2,989,838	\$ 416,290	\$ 2,482,733	\$ 769,489	\$ 8,283,384	\$ (1,163,049)	\$ 13,778,685
Appropriation of 2019 earnings							
Legal reserve	-	-	250,244	-	(250,244)	-	-
Special reserve	-	-	-	393,559	(393,559)	-	-
Cash dividends distributed by the Corporation	-	-	-	-	(1,255,732)	-	(1,255,732)
Difference between carrying amount and consideration on the actual acquisition or disposal of equity interests in subsidiaries	-	-	-	-	(509)	-	(509)
Net profit for the year ended December 31, 2020	-	-	-	-	3,993,317	-	3,993,317
Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax	-	-	-	-	29,689	(511,314)	(481,625)
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	4,023,006	(511,314)	3,511,692
BALANCE AT DECEMBER 31, 2020	2,989,838	416,290	2,732,977	1,163,048	10,406,346	(1,674,363)	16,034,136
Appropriation of 2020 earnings							
Legal reserve	-	-	402,250	-	(402,250)	-	-
Special reserve	-	-	-	511,314	(511,314)	-	-
Cash dividends distributed by the Corporation	-	-	-	-	(2,092,887)	-	(2,092,887)
Net profit for the year ended December 31, 2021	-	-	-	-	4,649,502	-	4,649,502
Other comprehensive income (loss) for the year ended December 31, 2021, net of income tax	-	-	-	-	(45,078)	(790,423)	(835,501)
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	4,604,424	(790,423)	3,814,001
BALANCE AT DECEMBER 31, 2021	\$ 2,989,838	\$ 416,290	\$ 3,135,227	\$ 1,674,362	\$ 12,004,319	\$ (2,464,786)	\$ 17,755,250

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

(With Deloitte & Touche audit report dated March 23, 2022)

MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 5,890,730	\$ 5,031,144
Adjustments for:		
Depreciation expenses	70,812	66,808
Amortization expenses	3,038	749
Expected credit losses recognized (reversal) on trade receivables	413	(3,678)
Net loss (gain) on fair value changes of financial assets at fair value through profit or loss	5,639	(23,743)
Interest expense	10,491	4,586
Interest income	(20,409)	(27,928)
Dividend income	(1,854)	(1,389)
Share of profit of associates	(4,644,140)	(3,580,526)
Loss on disposal of property, plant and equipment	129	48
Write-down of inventories	53,093	3,786
Unrealized (realized) loss on transactions with associates	186,227	(447,879)
Unrealized net gain on foreign currency exchange	(8,319)	(9,061)
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	913,457	(461,182)
Notes receivable	(9,742)	1,751
Trade receivables	62,362	1,496,445
Other receivables	(4,680)	(20,908)
Inventories	(2,484,317)	(1,404,067)
Other current assets	(504,997)	(35,635)
Contract liabilities	2,253,911	126,112
Trade payables	(669,379)	411,424
Other payables	90,629	192,071
Other current liabilities	11,235	157
Net defined benefit liabilities	(4,101)	(49,705)
Cash generated from operations	1,200,228	1,269,380
Interest received	19,109	40,898
Dividends received	6,819	11,254
Interest paid	(10,254)	(4,504)
Income tax paid	(144,265)	(389,870)
Net cash generated from operating activities	<u>1,071,637</u>	<u>927,158</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of associates	-	(29,043)
Payments for property, plant and equipment	(25,019)	(15,957)
Proceeds from disposal of property, plant and equipment	-	7
Increase in refundable deposits	(1,415)	-
Decrease in other receivables from related parties	62,339	89,107
Payments for intangible assets	(2,008)	(14,000)

(Continued)

MERIDA INDUSTRY CO., LTD.

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

	For the Year Ended December 31	
	2021	2020
Payments for investments properties	\$ (485)	\$ -
Increase in prepayments for equipment	<u>(39,161)</u>	<u>(32,720)</u>
Net cash used in investing activities	<u>(5,749)</u>	<u>(2,606)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term bank loans	1,004,928	326,298
Repayment of the principal portion of lease liabilities	(3,544)	(4,134)
Dividends paid to owners of the Corporation	<u>(2,092,887)</u>	<u>(1,255,732)</u>
Net cash used in financing activities	<u>(1,091,503)</u>	<u>(933,568)</u>
NET DECREASE IN CASH	(25,615)	(9,016)
CASH AT THE BEGINNING OF THE YEAR	<u>1,528,092</u>	<u>1,537,108</u>
CASH AT THE END OF THE YEAR	<u>\$ 1,502,477</u>	<u>\$ 1,528,092</u>

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

(With Deloitte & Touche auditors' report dated March 23, 2022)

(Concluded)

MERIDA INDUSTRY CO., LTD.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation’s board of directors on March 23, 2022.

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

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

The initial application of the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Corporation’s accounting policies:

- b. The IFRSs endorsed by the FSC for application starting from 2022

New IFRSs	Effective Date Announced by IASB
“Annual Improvements to IFRS Standards 2018-2020”	January 1, 2022 (Note 1)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 2)
Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”	January 1, 2022 (Note 3)
Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”	January 1, 2022 (Note 4)

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

Note 2: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 3: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the financial statements were authorized for issue, the Corporation has assessed that the application of other standards and interpretations will not have a material impact on the Group's financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17 - Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 2)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 3)
Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023 (Note 4)

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

Note 2: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

As of the date the financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the “Regulations”).

b. Basis of preparation

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

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

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

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

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

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction not retranslated.

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

e. Inventories

Inventories consist of raw materials, work-in-progress and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at their weighted-average costs on the balance sheet date.

f. Investments accounted for using the equity method

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

1) Investments in subsidiaries

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

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

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

When the Corporation's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Corporation's net investment in the subsidiary), the Corporation continues recognizing its share of further losses, if any.

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

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

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

2) Investments in associates

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

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

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

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

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

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

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

g. Property, plant, and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

The depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

h. Investment properties

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

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

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

i. Intangible assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

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

j. Impairment of property, plant and equipment, right-of-use assets, investment properties and intangible assets other than goodwill

At the end of each reporting period, the Corporation reviews the carrying amounts of its property, plant and equipment, right-of-use assets, investment properties and intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount (less amortization or depreciation) that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 6(20).

ii. Financial assets at amortized cost

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

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

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

iii. Investments in equity instruments at FVTOCI

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

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

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

b) Impairment of financial assets and contract assets

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

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

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

For internal credit risk management purposes, the Corporation determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Corporation):

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

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account.

c) Derecognition of financial assets

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

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

2) Equity instruments

Debt and equity instruments issued by the Corporation are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Corporation's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

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

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

1. Revenue recognition

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

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

Revenue from the sale of goods is recognized as revenue when the goods are delivered to the customer's specific location or when the goods are shipped, because it is the time when the customer has full discretion over the manner of distribution and bears the risks. Trade receivables are recognized concurrently. The transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

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

m. Leases

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease.

1) The Corporation as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

2) The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the parent company only balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Corporation uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in future lease payments resulting from a change in a lease term the Corporation remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the parent company only balance sheets.

n. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under the defined retirement benefit plans are determined using the projected unit credit method. Service costs and net interest on the net defined benefit liabilities are recognized as employee benefits expenses in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Net defined benefit liabilities represent the actual deficit in the Corporation's defined benefit plans.

o. Taxation

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

1) Current tax

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

According to the Income Tax Act in the ROC, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

2) Deferred tax

Deferred tax is calculated on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and that they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which liabilities are settled or assets are realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation's accounting policies, management is required to make judgments, estimations, and assumptions on the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The Corporation considers the impact of the recent development of the COVID-19 in Taiwan and its economic environment implications when making its critical accounting estimates in cash flow projections, growth rate, discount rate, profitability, etc. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty - Write-down of inventories

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

6. EXPLANATION OF IMPORTANT ACCOUNTING ITEMS

1) Cash

	December 31	
	2021	2020
Cash on hand	\$ 226	\$ 256
Checking accounts and demand deposits	<u>1,502,251</u>	<u>1,527,836</u>
	<u>\$ 1,502,477</u>	<u>\$ 1,528,092</u>

2) Financial instruments at fair value through profit or loss

	December 31	
	2021	2020
Financial assets		
Non-derivative financial assets		
Mutual funds	\$ 600,202	\$ 1,511,654
Domestic listed shares	<u>44,436</u>	<u>52,080</u>
Financial assets at FVTPL - current	<u>\$ 644,638</u>	<u>\$ 1,563,734</u>

3) Trade receivables

	December 31	
	2021	2020
Trade receivables	\$ 1,763,389	\$ 1,829,483
Less: Allowance for impairment loss	<u>(2,158)</u>	<u>(1,745)</u>
	<u>\$ 1,761,231</u>	<u>\$ 1,827,738</u>

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

In order to minimize credit risk, the management of the Corporation has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Corporation reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Corporation's credit risk was significantly reduced.

The Corporation applies the simplified approach to providing for expected credit losses, which permits the use of a lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are referenced to the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. The provision for loss allowance based on past due status is not further distinguished according to the Corporation's different customer base.

The Corporation writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Corporation continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables of the Corporation:

December 31, 2021

	Not Past Due	Past due up to 3 months	Total
Expected credit loss rate	0%-0.5%	3%	
Gross carrying amount	\$ 1,708,157	\$ 55,232	\$ 1,763,389
Loss allowance (Lifetime ECLs)	<u>(991)</u>	<u>(1,167)</u>	<u>(2,158)</u>
Amortized cost	<u>\$ 1,707,166</u>	<u>\$ 54,065</u>	<u>\$ 1,761,231</u>

December 31, 2020

	Not Past Due	Past due up to 3 months	Total
Expected credit loss rate	0%-0.5%	3%	
Gross carrying amount	\$ 1,803,087	\$ 26,396	\$ 1,829,483
Loss allowance (Lifetime ECLs)	<u>(1,154)</u>	<u>(591)</u>	<u>(1,745)</u>
Amortized cost	<u>\$ 1,801,933</u>	<u>\$ 25,805</u>	<u>\$ 1,827,738</u>

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

	For the Year Ended December 31	
	2021	2020
Balance at January 1	\$ 1,745	\$ 5,423
Less: Impairment loss recognized (reversed) in the current year	<u>413</u>	<u>(3,678)</u>
Balance at December 31	<u>\$ 2,158</u>	<u>\$ 1,745</u>

4) Inventories

	December 31	
	2021	2020
Finished goods	\$ 1,091,128	\$ 593,262
Work in progress	197,329	732,655
Raw materials and supplies	3,859,900	1,386,327
Inventory in transit	<u>62,910</u>	<u>67,799</u>
	<u>\$ 5,211,267</u>	<u>\$ 2,780,043</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2021 and 2020 was \$21,324,979 thousand and \$18,422,627 thousand, respectively. The cost of goods sold for the years ended December 31, 2021 and 2020 included inventory write-down of \$53,093 thousand and \$3,786 thousand, respectively.

5) Financial assets at fair value through other comprehensive income

	December 31	
	2021	2020
<u>Non-current</u>		
Overseas unlisted shares	\$ 89,220	\$ 89,220
Domestic unlisted shares	<u>3,400</u>	<u>3,400</u>
	<u>\$ 92,620</u>	<u>\$ 92,620</u>

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

6) Investments accounted for using the equity method

	December 31	
	2021	2020
Investments in subsidiaries	\$ 3,587,008	\$ 3,495,334
Investments in associates	<u>17,373,022</u>	<u>13,828,216</u>
	<u>\$ 20,960,030</u>	<u>\$ 17,323,550</u>

a. Investments in subsidiaries

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Unlisted shares</u>		
Merida International (B.V.I) Ltd. (“Merida B.V.I.”)	\$ 2,636,279	\$ 2,686,883
Merida & Centurion Germany GmbH (“Merida & Centurion”)	543,537	491,153
Merida Norge A.S. (“Merida Norge”)	124,983	97,759
Merida Polska Sp.z.o.o (“Merida Polska”)	86,894	66,506
Merida Japan Co., Ltd (“Merida Japan”)	59,761	68,877
Merida Bicycles Ltd. (“Merida U.K.”)	<u>135,554</u>	<u>84,156</u>
	<u>\$ 3,587,008</u>	<u>\$ 3,495,334</u>
<u>Credit Balance of Investments Accounted for Using the Equity Method</u>		
Merida Benelux B.V. (“Merida Benelux”)	<u>\$ 41,053</u>	<u>\$ 67,098</u>

The proportion of ownership and voting rights of investments in subsidiaries for the Corporation was as follows:

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Merida B.V.I.	100%	100%
Merida & Centurion	51%	51%
Merida Norge	75%	75%
Merida Polska	74%	74%
Merida Japan	90%	90%
Merida U.K.	81%	81%
Merida Benelux	60%	60%

Stians Sport AS was renamed as Merida Norge AS in May 2020, while Miyata Cycle Co., Ltd. was renamed as Merida Japan Co., Ltd. in July 2020. Due to business needs, Merida Japan Co., Ltd. established a new company, Miyata Cycle Co., Ltd. The Corporation acquired 400 ordinary shares of Merida Japan Co., Ltd. through cash in the amount of \$15,195 thousand. After the acquisition, the Corporation’s shareholding proportion increased to 90%.

The profit/loss of subsidiaries accounted for using the equity method in 2021 and 2020 has been recognized in accordance with those subsidiaries' audited financial reports of the same years.

Refer to Table 7 “Information on Investees” following the Notes to Financial Statements for the nature of activities, principal places of business and countries of incorporation of the Corporation’s subsidiaries.

b. Investments in associates

	December 31	
	2021	2020
<u>Unlisted shares</u>		
Specialized Bicycle Components, Inc. (“SBC”)	\$ 17,065,507	\$ 13,544,791
SAIL & SURF Produktion-und Handelsgesellschaft m.b.H. (“SAIL & SURF”)	122,672	114,561
Merida Bikes SWE, S.A (“Merida Bikes SWE”)	77,185	70,268
Merida Czech s.r.o (“Merida Czech”)	52,107	42,587
Merida Slovakia s.r.o (“Merida Slovakia”)	26,362	25,978
Merida Korea Inc. (“Merida Korea”)	12,881	14,329
WideDoctor (International) Enterprise Co., Ltd. (“WideDoctor”)	3,078	3,880
Merida Italy S.r.a (“Merida Italy”)	<u>13,230</u>	<u>11,822</u>
	<u>\$ 17,373,022</u>	<u>\$ 13,828,216</u>

The Corporation’s proportion of ownership and voting rights of investments in associates was as follows:

	December 31	
	2021	2020
SBC	35%	35%
SAIL & SURF	40%	40%
Merida Bikes SWE	36%	36%
Merida Czech	45%	45%
Merida Slovakia	30%	30%
Merida Korea	40%	40%
WideDoctor	26%	26%
Merida Italy	27%	27%

Refer to Table 7 “Information on Investees” following the Notes to Financial Statements for the nature of activities, principal place of business and country of incorporation of the Corporation’s associates.

The aggregate financial information of associates is as follows:

	For the Year Ended December 31	
	2021	2020
The Corporation's share of:		
Profit for the year	\$ 4,393,265	\$ 3,385,363
Other comprehensive loss for the year	<u>(207,761)</u>	<u>129,124</u>
Total comprehensive income for the year	<u>\$ 4,185,504</u>	<u>\$ 3,514,487</u>

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

7) Property, plant and equipment

	For the Year Ended December 31, 2021				
	Beginning Balance	Additions	Disposals	Reclassifications	Ending Balance
<u>Cost</u>					
Land	\$ 475,240	\$ -	\$ -	\$ -	\$ 475,240
Buildings	651,189	-	-	-	651,189
Machinery and equipment	284,278	2,235	(926)	2,354	287,941
Transportation equipment	1,575	-	-	-	1,575
Miscellaneous equipment	<u>37,802</u>	<u>22,784</u>	<u>(8,238)</u>	<u>6,958</u>	<u>59,306</u>
	<u>1,450,084</u>	<u>\$ 25,019</u>	<u>\$ (9,164)</u>	<u>\$ 9,312</u>	<u>1,475,251</u>
<u>Accumulated depreciation</u>					
Buildings	316,659	\$ 16,118	\$ -	\$ -	332,777
Machinery and equipment	112,259	35,434	(863)	-	146,830
Transportation equipment	502	315	-	-	817
Miscellaneous equipment	<u>16,788</u>	<u>14,787</u>	<u>(8,172)</u>	<u>-</u>	<u>23,403</u>
	<u>446,208</u>	<u>\$ 66,654</u>	<u>\$ (9,035)</u>	<u>\$ -</u>	<u>503,827</u>
	<u>\$1,003,876</u>				<u>\$ 971,424</u>
	For the Year Ended December 31, 2020				
	Beginning Balance	Additions	Disposals	Reclassifications	Ending Balance
<u>Cost</u>					
Land	\$ 474,891	\$ -	\$ -	\$ 349	\$ 475,240
Buildings	651,189	-	-	-	651,189
Machinery and equipment	256,560	1,565	(10,097)	36,250	284,278
Transportation equipment	2,489	-	(1,424)	510	1,575
Miscellaneous equipment	<u>41,531</u>	<u>14,392</u>	<u>(18,121)</u>	<u>-</u>	<u>37,802</u>
	<u>1,426,660</u>	<u>\$ 15,957</u>	<u>\$ (29,642)</u>	<u>\$ 37,109</u>	<u>1,450,084</u>
<u>Accumulated depreciation</u>					
Buildings	300,549	\$ 16,110	\$ -	\$ -	316,659
Machinery and equipment	90,273	32,028	(10,042)	-	112,259
Transportation equipment	1,401	525	(1,424)	-	502
Miscellaneous equipment	<u>21,415</u>	<u>13,494</u>	<u>(18,121)</u>	<u>-</u>	<u>16,788</u>
	<u>413,638</u>	<u>\$ 62,157</u>	<u>\$ (29,587)</u>	<u>\$ -</u>	<u>446,208</u>
	<u>\$1,013,022</u>				<u>\$1,003,876</u>

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

Buildings	
Main buildings	25-60 years
Ancillary work	4-55 years
Machinery and equipment	8-15 years
Transportation equipment	5 years
Miscellaneous equipment	3-15 years

8) Lease arrangements

a. Right-of-use assets

	December 31	
	2021	2020
<u>Carrying amounts</u>		
Land	\$ 186	\$ 1,202
Buildings	448	767
Transportation equipment	<u>1,825</u>	<u>1,560</u>
	<u>\$ 2,459</u>	<u>\$ 3,529</u>
	For the Year Ended December 31	
	2021	2020
Additions to right-of-use assets	<u>\$ 2,506</u>	<u>\$ 806</u>
Depreciation charge for right-of-use assets		
Land	\$ 1,016	\$ 1,016
Buildings	319	472
Transportation equipment	<u>2,241</u>	<u>2,596</u>
	<u>\$ 3,576</u>	<u>\$ 4,084</u>

b. Lease liabilities

	December 31	
	2021	2020
<u>Carrying amounts</u>		
Current	<u>\$ 1,370</u>	<u>\$ 2,870</u>
Non-current	<u>\$ 1,029</u>	<u>\$ 567</u>

Range of discount rate for lease liabilities was as follows:

	December 31	
	2021	2020
Land	1.15%	1.15%
Buildings	1.15%	1.15%
Transportation equipment	1.04%	1.04%

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

The Corporation leases certain land, buildings and transportation equipment for product manufacturing and operational uses with lease terms of 2 to 6 years. According to the lease contract, the Corporation does not have bargain purchase options to acquire the land, buildings and transportation equipment at the end of the lease terms.

d. Other lease information

	For the Year Ended December 31	
	2021	2020
Expenses relating to short-term leases	<u>\$ 3,179</u>	<u>\$ 2,382</u>
Expenses relating to low-value asset leases	<u>\$ 173</u>	<u>\$ 154</u>
Total cash outflow for leases	<u>\$ (6,896)</u>	<u>\$ (6,670)</u>

The Corporation leases certain office equipment and miscellaneous equipment which qualify as short-term leases and low-value asset leases. The Corporation has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

9) Investment properties

	December 31	
	2021	2020
Land	\$ 20,309	\$ 20,309
Buildings	23,977	23,977
Parking garages	6,953	6,953
Air-conditioning units	<u>3,553</u>	<u>3,068</u>
	54,792	54,307
Less: Accumulated depreciation	<u>(20,053)</u>	<u>(19,471)</u>
	<u>\$ 34,739</u>	<u>\$ 34,836</u>

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

Buildings	55 years
Parking garages	49 years

The fair value of investment properties for the years ended December 31, 2021 and 2020 was \$57,892 thousand and \$54,045 thousand, respectively. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

10) Intangible Assets

	December 31	
	2021	2020
<u>Cost</u>		
Balance at January 1	\$ 14,147	\$ 147
Additions	<u>2,850</u>	<u>14,000</u>
Balance at December 31	<u>\$ 16,997</u>	<u>\$ 14,147</u>

(Continued)

	<u>December 31</u>	
	2021	2020
<u>Accumulated amortization</u>		
Balance at January 1	\$ 757	\$ 8
Amortization expenses	<u>3,038</u>	<u>749</u>
Balance at December 31	<u>\$ 3,795</u>	<u>\$ 757</u>
Carrying amount at January 1	<u>\$ 13,390</u>	<u>\$ 139</u>
Carrying amount at December 31	<u>\$ 13,202</u>	<u>\$ 13,390</u>

(Concluded)

Other intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer software 3-5 years

11) Short-term bank borrowings

	<u>December 31</u>	
	2021	2020
Line of credit borrowings	\$ 2,100,000	\$ -
Letters of credit - due after 180 days of acceptance	<u>65,706</u>	<u>1,161,358</u>
	<u>\$ 2,165,706</u>	<u>\$ 1,161,358</u>
<u>Rate of interest rates per annum (%)</u>		
Line of credit borrowings	0.612-0.88	-
Letters of credit	No more than 0.66	No more than 0.82

12) Other payables

	<u>December 31</u>	
	2021	2020
Payables for compensation to employees	\$ 386,700	\$ 330,272
Payables for remuneration of directors	167,570	143,118
Payables for salaries and bonuses	116,935	117,551
Others	<u>124,915</u>	<u>114,313</u>
	<u>\$ 796,120</u>	<u>\$ 705,254</u>

13) Retirement benefit plans

a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plans adopted by the Corporation in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Corporation contributes amounts equal to 6% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Corporation has no right to influence the investment policy and strategy. According to the regulations for employees' retirement policy, the Corporation reserves 4% of monthly salaries and wages of appointed managers as an employee retirement reserve (recognized as net defined benefit liabilities).

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

	<u>December 31</u>	
	2021	2020
Present value of defined benefit obligation	\$ 697,718	\$ 676,381
Fair value of plan assets	<u>(537,081)</u>	<u>(567,990)</u>
Net defined benefit liabilities	<u>\$ 160,637</u>	<u>\$ 108,391</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2021	\$ <u>676,381</u>	\$ <u>(567,990)</u>	\$ <u>108,391</u>
Service costs			
Current service costs	6,883	-	6,883
Net interest expense (income)	<u>2,616</u>	<u>(2,201)</u>	<u>415</u>
Recognized in profit or loss	<u>9,499</u>	<u>(2,201)</u>	<u>7,298</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(7,877)	(7,877)
Actuarial loss - change in demographic assumptions	11,931	-	11,931
Actuarial profit - changes in financial assumption	(20,773)	-	(20,773)
Actuarial loss - experience adjustments	<u>73,066</u>	<u>-</u>	<u>73,066</u>
Recognized in other comprehensive income	<u>64,224</u>	<u>(7,877)</u>	<u>56,347</u>
Contributions from the employer	-	(8,498)	(8,498)
Benefits paid	<u>(52,386)</u>	<u>49,485</u>	<u>(2,901)</u>
Balance at December 31, 2021	<u>\$ 697,718</u>	<u>\$ (537,081)</u>	<u>\$ 160,637</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2020	\$ 692,214	\$ (497,007)	\$ 195,207
Service costs			
Current service costs	8,312	-	8,312
Net interest expense (income)	5,377	(3,851)	1,526
Recognized in profit or loss	<u>13,689</u>	<u>(3,851)</u>	<u>9,838</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(16,580)	(16,580)
Actuarial loss - changes in financial assumption	20,485	-	20,485
Actuarial loss - experience adjustments	<u>(41,016)</u>	<u>-</u>	<u>(41,016)</u>
Recognized in other comprehensive income	<u>(20,531)</u>	<u>(16,580)</u>	<u>(37,111)</u>
Contributions from the employer	-	(59,543)	(59,543)
Benefits paid	<u>(8,991)</u>	<u>8,991</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 676,381</u>	<u>\$ (567,990)</u>	<u>\$ 108,391</u> (Concluded)

Through the defined benefit plan under the Labor Standards Act, the Corporation is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2021	2020
Discount rate	0.80%	0.40%
Expected rate of salary increase	2.25%	2.25%

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

	December 31	
	2021	2020
Discount rate		
0.50% increase	<u>\$ (24,580)</u>	<u>\$ (25,447)</u>
0.50% decrease	<u>\$ 26,129</u>	<u>\$ 27,118</u>
Expected rate of salary increase/decrease		
0.50% increase	<u>\$ 25,629</u>	<u>\$ 26,490</u>
0.50% decrease	<u>\$ (24,366)</u>	<u>\$ (25,129)</u>

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

	December 31	
	2021	2020
Expected contributions to the plans for the next year	<u>\$ 7,652</u>	<u>\$ 9,609</u>
Average duration of the defined benefit obligation	7.4 years	7.7 years

14) Equity

a. Common shares

	December 31	
	2021	2020
Number of shares authorized (in thousands)	<u>350,000</u>	<u>350,000</u>
Shares authorized	<u>\$ 3,500,000</u>	<u>\$ 3,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>298,984</u>	<u>298,984</u>
Shares issued	<u>\$ 2,989,838</u>	<u>\$ 2,989,838</u>

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

b. Capital surplus

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

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

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors after the amendment, refer to Note 6(16).

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

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

The appropriations of earnings for 2020 and 2019 approved in the shareholders' meetings in August 2021 and June 2020, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Legal reserve	\$ 402,250	\$ 250,244		
Appropriation to special reserve	511,314	393,559		
Cash dividends	2,092,887	1,255,732	\$ 7.0	\$ 4.2

The appropriation of earnings for 2021 had been proposed by the Corporation's board of directors on March 23, 2022. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 460,442	
Special reserve	790,424	
Cash dividends	2,391,870	\$ 8.0

The appropriation of earnings for 2021 are subject to the resolution of the shareholders in the shareholders' meeting to be held on June 23, 2022.

15) Revenue

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Revenue from contracts with customers		
Revenue from sale of goods	<u>\$ 23,434,868</u>	<u>\$ 20,229,413</u>

a. Contract balances

	December 31, 2021	December 31, 2020	January 1, 2020
Notes and trade receivables	<u>\$ 1,777,927</u>	<u>\$ 1,834,692</u>	<u>\$ 3,345,543</u>
Contract liabilities-current	<u>\$ 2,413,939</u>	<u>\$ 160,028</u>	<u>\$ 33,916</u>

b. Disaggregation of revenue

Refer to Statement 9 in the Statements of Major Accounting Items for information about the disaggregation of revenue.

16) Employee benefits expense, depreciation and amortization expenses

	Operating Costs	Operating Expenses	Non-Operating Expenses	Total
<u>For the Year Ended December 31, 2021</u>				
Short-term employee benefits				
Salary expenses	\$ 852,357	\$ 334,737	\$ 16,344	\$ 1,203,438
Labor and health insurance costs	65,825	12,948	2,343	81,116
Post-employment benefits				
Defined contribution plans	17,790	2,445	749	20,984
Defined benefit plan	5,392	1,729	177	7,298
Remuneration of directors	-	172,665	-	172,665
Other employee benefits	32,112	2,518	253	34,883
Depreciation expenses	56,352	13,878	582	70,812
Amortization expenses	-	3,038	-	3,038
<u>For the Year Ended December 31, 2020</u>				
Short-term employee benefits				
Salary expenses	713,995	291,023	13,687	1,018,705
Labor and health insurance costs	56,075	12,409	2,376	70,860
Post-employment benefits				
Defined contribution plans	15,956	2,335	674	18,965
Defined benefit plan	7,446	2,154	238	9,838
Remuneration of directors	-	143,118	-	143,118
Other employee benefits	21,403	1,669	227	23,299
Depreciation expenses	51,016	15,225	567	66,808
Amortization expenses	-	749	-	749

- a. As of December 31, 2021 and 2020, the Corporation had 1,254 and 1,118 employees, respectively. Among them, the number of directors not concurrently serving as employees are both 7; the basis of calculation is the same as employee benefits expenses.
- b. The average employee benefits expense was NT\$1,081 thousand and NT\$1,028 thousand for the years ended December 31, 2021 and 2020, respectively.
- c. The average employee salary expense was NT\$965 thousand and NT\$917 thousand for the years ended December 31, 2021 and 2020, respectively.
- d. Average employee salary expenses increased by 5.23%.
- e. The Corporation does not have supervisors.

f. The Corporation's salary and compensation policy is as follows:

- a) The salary and compensation of employees shall be decided in accordance with the Corporation's remuneration management policy and related regulations, with reference to industry practices. It shall be approved by the remuneration committee to ensure the competitiveness of remuneration for the purpose of motivation and retention of talent.
- b) The remuneration of directors shall be decided in accordance with the Corporation's Articles of Incorporation and shall be approved by the remuneration committee.

Employees' compensation and remuneration of directors

According to the Corporation's Articles of Incorporation, the Corporation accrued employees' compensation and remuneration of directors at rates of no less than 5% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2021 and 2020, which were approved by the Corporation's board of directors on March 23, 2022 and March 25, 2021, respectively, are as follows:

Cash	For the Year Ended December 31			
	2021		2020	
	Accrual Rate	Amount	Accrual Rate	Amount
Employees' compensation	6%	\$ 386,700	6%	\$ 330,272
Remuneration of directors	2.6%	167,570	2.6%	143,118

If there is a change in the amounts after the annual financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the years ended December 31, 2020 and 2019.

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

17) Taxes

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

	For the Year Ended December 31	
	2021	2020
Current tax		
In respect of the current year	\$ 303,073	\$ 175,402
Income tax on unappropriated earnings	50,828	28,362
Adjustments for prior years	<u>11,458</u>	<u>8,059</u>
	<u>365,359</u>	<u>211,823</u>
Deferred tax		
In respect of the current year	<u>875,869</u>	<u>826,004</u>
Income tax expense recognized in profit or loss	<u>\$ 1,241,228</u>	<u>\$ 1,037,827</u>

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

	For the Year Ended December 31	
	2021	2020
Income tax expense calculated at the statutory rate	\$ 1,178,146	\$ 1,006,229
Nondeductible expenses in determining taxable income	40	31
Tax-exempt income	756	(4,854)
Income tax on unappropriated earnings	50,828	28,362
Adjustments for prior years' tax	<u>11,458</u>	<u>8,059</u>
Income tax expense recognized in profit or loss	<u>\$ 1,241,228</u>	<u>\$ 1,037,827</u>

b. Current liabilities

	December 31	
	2021	2020
Current tax liabilities		
Income tax payable	<u>\$ 328,947</u>	<u>\$ 108,191</u>

c. Changes in deferred tax assets and liabilities

	For the Year Ended December 31, 2021			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized intercompany profit	\$ 41,288	\$ 37,245	\$ -	\$ 78,533
Defined benefit obligation	18,122	(369)	11,269	29,022
Unrealized impairment loss on assets	12,498	-	-	12,498
Unrealized provision for loss on inventory	<u>4,160</u>	<u>10,619</u>	<u>-</u>	<u>14,779</u>
	<u>\$ 76,068</u>	<u>\$ 47,495</u>	<u>\$ 11,269</u>	<u>\$ 134,832</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Investments accounted for using the equity method	\$ 3,318,173	\$ 925,852	\$ -	\$ 4,244,025
Reserve for land revaluation increment tax	100,934	-	-	100,934
Unrealized foreign currency exchange gains	<u>4,309</u>	<u>(2,488)</u>	<u>-</u>	<u>1,821</u>
	<u>\$ 3,423,416</u>	<u>\$ 923,364</u>	<u>\$ -</u>	<u>\$ 4,346,780</u>

For the Year Ended December 31, 2020

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

d. Income tax assessments

The income tax returns of the Corporation through 2019 have been assessed by the tax authorities.

18) Earnings per share

	Net Profit Attributable to Owners of the Corporation	Number of Shares	Earnings Per Share (NT\$)
<u>For the Year Ended December 31, 2021</u>			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	\$ 4,649,502	298,983,800	<u>\$15.55</u>
Effect of potentially dilutive common shares:			
Employees' compensation	<u>-</u>	<u>1,422,252</u>	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	<u>\$ 4,649,502</u>	<u>300,406,052</u>	<u>\$15.48</u>

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

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

19) Capital management

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

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

20) Financial instruments

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

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

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

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

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

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

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

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 644,638	\$ 1,563,734
Financial assets at amortized cost	3,377,252	3,514,914
Financial assets at FVTOCI - equity instruments	92,620	92,620
<u>Financial liabilities</u>		
Financial liabilities at amortized cost	6,976,948	6,562,584

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

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

d. Financial risk management objectives and policies

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

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

a) Market risk

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

i. Foreign currency risk

The Corporation has foreign currency sales and purchases, which exposes the Corporation to foreign currency risk. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts.

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

Sensitivity analysis

The Corporation was mainly exposed to the USD.

Assuming a 1% increase in the NTD against the USD, the pre-tax profit for the years ended December 31, 2021 and 2020 would have decreased by \$15,146 thousand and \$13,110 thousand, respectively. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates was 1% for the years ended December 31, 2021 and 2020.

ii. Interest rate risk

The Corporation is exposed to interest rate risk because the Corporation borrowed funds at both fixed and floating interest rates.

The carrying amounts of the Corporation's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2021	2020
Fair value interest rate risk		
Financial liabilities	\$ 2,399	\$ 690,599
Cash flow interest rate risk		
Financial assets	1,502,251	1,527,836
Financial liabilities	2,165,706	474,196

Sensitivity analysis

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

If interest rates had been 0.25% higher and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2021 and 2020 would have decreased by \$1,659 thousand and increased by \$2,634 thousand, respectively.

b) Credit risk

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

- i. The carrying amount of the respective recognized financial assets as stated in the balance sheets; and

- ii. The maximum amount the Corporation would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Corporation's concentration of credit risk was mainly from the top 2 customers, which together accounted for 79% and 62% of the total trade receivables as of December 31, 2021 and 2020, respectively.

c) Liquidity risk

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

The Corporation relies on bank borrowings as a significant source of liquidity. As of December 31, 2021 and 2020, the Corporation had available unutilized bank loan facilities of \$5,176,443 thousand and \$4,430,808 thousand, respectively.

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

The following table details the Corporation's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Corporation can be required to pay. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed upon repayment dates.

	On Demand or Less Than 1 Year	1-2 Years	2+ Years
<u>December 31, 2021</u>			
Non-interest bearing liabilities	\$ 4,810,975	\$ -	\$ -
Lease liabilities	1,388	877	157
Variable interest rate liabilities	2,165,706	-	-
Financial guarantee liabilities	<u>188,769</u>	<u>97,181</u>	<u>843,678</u>
	<u>\$ 7,166,838</u>	<u>\$ 98,058</u>	<u>\$ 843,835</u>

Additional information about the maturity analysis for lease liabilities.

	Less Than 1 Year	1-5 Years
Lease liabilities	\$ 1,388	\$ 1,034
Financial guarantee liabilities	<u>\$ 188,769</u>	<u>\$ 940,859</u>

<u>December 31, 2020</u>	Less Than 1 Year	1-2 Years	2+ Years
Non-interest bearing liabilities	\$ 5,400,959	\$ -	\$ -
Lease liabilities	2,887	354	218
Variable interest rate liabilities	474,196	-	-
Fixed interest rate liabilities	687,162	-	-
Financial guarantee liabilities	<u>252,938</u>	<u>124,323</u>	<u>810,020</u>
	<u>\$ 6,818,142</u>	<u>\$ 124,677</u>	<u>\$ 810,238</u>

Additional information about the maturity analysis for lease liabilities.

	Less Than 1 Year	1-5 Years
Lease liabilities	<u>\$ 2,887</u>	<u>\$ 572</u>
Financial guarantee liabilities	<u>\$ 252,938</u>	<u>\$ 934,343</u>

The amounts included above for financial guarantee contracts are the maximum amounts the Corporation could be required to settle under the arrangement with an option to demand the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Corporation considers that it is more likely than not that no amount will be payable under the arrangement.

7. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Corporation and other related parties are disclosed below.

a. Related Party Categories / Names

<u>Related Party</u>	<u>Relationship with the Corporation</u>
Merida Polska	Subsidiary
Merida Benelux	Subsidiary
Merida & Centurion	Subsidiary
Merida U.K.	Subsidiary
Merida International (SAMOA) Ltd. ("Merida SAMOA")	Subsidiary
Merida Industry (Hong Kong) Co., Ltd. ("Merida Hong Kong")	Subsidiary
Merida Bicycle (China) Co., Ltd. ("Merida China")	Subsidiary
Merida Bicycle (Shandong) Co., Ltd. ("Merida Shandong")	Subsidiary
Merida Bicycle (Jiangsu) Ltd. ("Merida Jiangsu")	Subsidiary
Merida Europe GmbH	Subsidiary
Merida R&D Center GmbH	Subsidiary
Merida Japan	Subsidiary
Miyata	Subsidiary

(Continued)

<u>Related Party</u>	<u>Relationship with the Corporation</u>
Merida Norge	Subsidiary
Merida Sverige AB	Subsidiary
SBC Group	Associate
SAIL & SURF	Associate
Merida Bikes SWE	Associate
Merida Czech	Associate
Merida Slovakia	Associate
Merida Korea	Associate
Merida Italy	Associate
Wide Doctor	Associate
Rai Bi Bicycle Co., Ltd.	Other
Cheng Shin Rubber Industry Co., Ltd. ("Cheng Shin")	Other
Cheng Shin Rubber (Xiamen) Ind., Ltd. ("Cheng Shin (Xiamen)")	Other
Tianjin Ta Feng Rubber Industry Co., Ltd. ("Tianjin Ta Feng")	Other
Wolfgang Renner	Other

(Concluded)

b. Sales of goods

Related Party Category/Name	For the Year Ended December 31	
	2021	2020
Associates		
SBC Group	\$ 18,246,993	\$ 15,935,709
Others	<u>1,297,255</u>	<u>864,387</u>
	19,544,248	16,800,096
Subsidiaries	2,326,969	1,839,168
Other related parties	<u>2,409</u>	<u>1,559</u>
	<u>\$ 21,873,626</u>	<u>\$ 18,640,823</u>

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

c. Purchase of goods

Related Party Category	For the Year Ended December 31	
	2021	2020
Subsidiaries	\$ 531,707	\$ 485,944
Others	<u>84,465</u>	<u>83,526</u>
	<u>\$ 616,172</u>	<u>\$ 569,470</u>

The purchase price is quoted based on market prices.

d. Contract liabilities - advance receipts

Related Party Category/Name	For the Year Ended December 31	
	2021	2020
Associates		
SBC Group	<u>\$ 2,219,500</u>	<u>\$ -</u>

e. Receivables from related parties

Related Party Category/Name	December 31	
	2021	2020
<u>Trade receivables</u>		
Associates		
SBC Group	\$ 1,386,434	\$ 1,120,335
Others	<u>154,034</u>	<u>106,067</u>
	1,540,468	1,226,402
Subsidiaries	139,857	458,503
Other related parties	<u>-</u>	<u>248</u>
	<u>\$ 1,680,325</u>	<u>\$ 1,685,153</u>
<u>Other receivables</u>		
Subsidiaries		
Merida Shandong	\$ 58,197	\$ 50,420
Merida Polska	-	62,339
Others	<u>9,601</u>	<u>21,045</u>
	67,798	133,804
Associates		
SBC Group	10,679	-
Others	<u>-</u>	<u>529</u>
	<u>10,679</u>	<u>529</u>
	<u>\$ 78,477</u>	<u>\$ 134,333</u>

The aging of receivables from related parties that were past due at the end of the reporting period was as follows (accounted for as other receivables):

	Less than 6 Months	6 Months to 1 Year	Total
<u>December 31, 2020</u>			
Subsidiaries			
Merida Polska	<u>\$ 52,361</u>	<u>\$ 9,978</u>	<u>\$ 62,339</u>

f. Payables to related parties

Related Party Category	December 31	
	2021	2020
<u>Trade payables</u>		
Subsidiaries	\$ 55,167	\$ 85,313
Others	<u>17,951</u>	<u>27,351</u>
	<u>\$ 73,118</u>	<u>\$ 112,664</u>

g. Other transactions with related parties

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

Related Party Category	For the Year Ended December 31	
	2021	2020
Subsidiaries	<u>\$ 146,887</u>	<u>\$ 157,339</u>

2) Interest income

Related Party Category/Name	For the Year Ended December 31	
	2021	2020
Subsidiaries		
Merida Norge	\$ 7,406	\$ 5,874
Merida Benelux	2,087	3,785
Merida & Centurion	-	4,095
Others	<u>2,169</u>	<u>1,808</u>
	<u>11,662</u>	<u>15,562</u>
Associates		
Merida Korea	5,467	-
Merida Czech	614	3,484
Others	-	3,602
	<u>6,081</u>	<u>7,086</u>
	<u>\$ 17,743</u>	<u>\$ 22,648</u>

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

3) Trademark franchise and technical service revenue

Related Party Category/Name	For the Year Ended December 31	
	2021	2020
Subsidiaries		
Merida Shandong	\$ 68,907	\$ 58,137
Merida Jiangsu	7,667	5,210
Merida China	<u>2,982</u>	<u>2,818</u>
	<u>\$ 79,556</u>	<u>\$ 66,165</u>

The Corporation entered into trademark licensing contracts with Merida China and Merida Shandong for agreement to label registered trademarks which were licensed to these companies for the bikes and electric bikes they manufacture and sell. The Corporation calculates and charges royalties for 3% of these companies' annual domestic net sales each year. Furthermore, the Corporation respectively entered into technical service contracts with Merida China, Merida Jiangsu and Merida Shandong to transfer production and management techniques to these companies. The Corporation charges technical service income at 1% of the net sales amount for each company individually every year.

h. Endorsements and guarantees

Related Party Category/Name	Item Endorsed	Amount Endorsed
<u>December 31, 2021</u>		
Subsidiaries	Standby letter of credit	EUR 3,000
	Bank borrowings	EUR 24,500
	Bank borrowings	GBP 6,000
	Bank borrowings	RMB210,000
<u>December 31, 2020</u>		
Subsidiaries	Standby letter of credit	EUR 3,000
	Bank borrowings	EUR 24,500
	Bank borrowings	USD 3,750
	Bank borrowings	GBP 4,000
	Bank borrowings	RMB 60,000

Refer to Table 2 “Financing provided to others” for the actual amount borrowed by the subsidiaries.

i. Remuneration of key management personnel

	For the Year Ended December 31	
	2021	2020
Short-term employee benefits	\$ 234,622	\$ 215,008
Post-employment benefits	<u>639</u>	<u>661</u>
	<u>\$ 235,261</u>	<u>\$ 215,669</u>

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

8. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

No such incident.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2021 and 2020 were as follows:

- a. As of December 31, 2021 and 2020, unused letters of credit for purchases of raw materials amounted to approximately \$127,089 thousand and \$745,772 thousand, respectively.

b. Unrecognized commitments are as follows:

	December 31	
	2021	2020
Acquisition of property, plant and equipment	<u>\$ 11,088</u>	<u>\$ 32,596</u>

c. Product liability insurance

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

10. SIGNIFICANT LOSSES FROM DISASTERS

No such incident.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No such incident.

12. OTHER ITEMS

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

13. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31, 2021			December 31, 2020		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>						
Monetary items						
USD	\$ 92,375	27.68	\$2,556,940	\$ 92,323	28.48	\$2,629,359
JPY	177,049	0.2405	42,580	141,257	0.2763	39,029

(Continued)

	December 31, 2021			December 31, 2020		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
Non-monetary items						
Investments						
accounted for using the equity method						
USD	\$ 708,162	27.68	\$19,601,924	\$ 558,163	28.48	\$15,896,482
EUR	25,467	31.32	797,626	19,444	35.02	680,929
JPY	225,464	0.2405	54,224	247,774	0.2763	68,460
POL	13,465	6.8516	92,257	10,039	7.5693	75,988

Financial liabilities

Monetary items

USD	37,657	27.68	1,042,346	46,290	28.48	1,318,339
JPY	1,042,580	0.2405	250,740	3,157,283	0.2763	872,357

(Concluded)

The significant unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2021		2020	
Foreign Currency	Exchange Rate	Net Foreign Exchange Gains (Losses)	Exchange Rate	Net Foreign Exchange Gains
USD	27.68	\$ 3,614	28.48	\$ 15,540
JPY	0.2405	5,241	0.2763	3,582
EUR	31.32	(112)	35.02	140
		<u>\$ 8,743</u>		<u>\$ 19,262</u>

14. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (Table 2)
- 3) Marketable securities held (excluding investments in subsidiaries and associates). (Table 3)
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 4)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)

- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 5)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 6)
- 9) Trading in derivative instruments.

The Corporation has no outstanding forward contracts as of December 31, 2021 and 2020.

- 10) Information on investees. (Table 7)

b. Information on investments in mainland China:

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 8)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 5)
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 5)
 - c) The amount of property transactions and the amount of the resultant gains or losses. (None)
 - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the year and their purposes. (Table 2)
 - e) The highest balance, the end of year balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)
- c. Information of major shareholders: list all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 9)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Amount Borrowed	Interest Rate (%)	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
													Item	Value		
0	The Corporation	Merida Polska	Other receivables from related parties	Yes	\$ 86,545	\$ -	\$ -	6.48	For short-term financing needs	\$ -	Operating capital	\$ -	-	\$ -	\$ 7,102,100 (Note 1)	\$ 8,877,625 (Note 3)
		Merida Italy	Other receivables from related parties	Yes	9,651	-	-	4.00	For short-term financing needs	-	Operating capital	-	-	-	1,775,525 (Note 2)	8,877,625 (Note 3)
1	Merida Shandong	Merida Jiangsu	Other receivables from related parties	Yes	RMB 70,000	RMB 60,000	RMB 7,800	2.325	For short-term financing needs	-	Operating capital	-	-	-	RMB 91,695 (Note 4)	RMB 91,695 (Note 4)
2	Merida China	Merida Jiangsu	Other receivables from related parties	Yes	RMB 36,000	RMB 25,000	RMB -	2.325	For short-term financing needs	-	Operating capital	-	-	-	RMB 31,042 (Note 5)	RMB 31,042 (Note 5)
3	Merida Hong Kong	The Corporation	Other receivables from related parties	Yes	USD 17,000	USD 17,000	USD -	-	For short-term financing needs	-	Operating capital	-	-	-	HKD 203,497 (Note 6)	HKD 203,497 (Note 6)

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

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

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

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

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

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

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity In Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given On Behalf of Companies in Mainland China
		Name	Relationship										
0	The Corporation	Merida U.K.	Subsidiary	\$ 5,326,575	EUR 500 GBP 6,000	EUR 500 GBP 6,000	EUR - GBP -	\$ -	1.35	\$ 8,877,625	Yes	-	-
		Merida & Centurion	Subsidiary	5,326,575	EUR 27,000	EUR 27,000	EUR 22,450	-	4.76	8,877,625	Yes	-	-
		Merida Jiangsu	Indirectly owned subsidiary	5,326,575	RMB 210,00 USD 3,750	RMB210,000 USD -	RMB 98,180 USD -	-	5.14	8,877,625	Yes	-	Yes

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

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

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2020			
				Number of Shares (In Thousands)	Carrying Amount	Percentage of Ownership (%)	Fair Value (Note)
The Corporation	<u>Mutual funds</u>						
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at FVTPL - current	19,139	\$ 200,076	-	\$ 200,076
	Yuanta De-Bao Money Market Fund	-	Financial assets at FVTPL - current	8,248	100,046	-	100,046
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	15,781	200,065	-	200,065
	Cathay Taiwan Money Market Fund	-	Financial assets at FVTPL - current	7,964	100,015	-	100,015
	<u>Share capital</u>						
	Leechi Enterprises Co., Ltd.	-	Financial assets at FVTPL - current	113	3,072	-	3,072
	Cheng Shin	The Corporation's chairman is their director	Financial assets at FVTPL - current	1,146	41,364	-	41,364
	Merida Benelux	-	Financial assets at FVTOCI - non-current	2,749	89,220	-	89,220
	SR Suntour Inc.	-	Financial assets at FVTOCI - non-current	110	3,000	-	3,000
	Taifong Golf Course	-	Financial assets at FVTOCI - non-current	30	400	-	400
	Long Jee Holdings Pte. Ltd.	-	Financial assets at FVTOCI - non-current	330	-	2	-

Note : Refer to Note 6(20) for information on the fair values.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount (Note)
The Corporation	Yuanta Wan-Tai Market Fund	Financial assets at FVTPL - current	-	-	27,706	\$ 350,474	55,263	\$ 700,000	67,188	\$ 851,154	\$ 850,000	\$ 1,154	15,781	\$ 200,065
	Franklin Templeton Sinoam Money Market Fund	Financial assets at FVTPL - current	-	-	46,095	480,695	19,139	200,000	46,095	481,319	480,000	1,319	19,139	200,076
	Cathay Taiwan Money Market Fund	Financial assets at FVTPL - current	-	-	23,942	300,100	15,934	200,000	31,912	400,296	400,000	296	7,964	100,015
	Mega Diamond Money Market Fund	Financial assets at FVTPL - current	-	-	16,399	250,177	6,555	100,000	22,954	350,370	350,000	370	-	-

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

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

FOR THE YEAR ENDED DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars and Foreign Currencies)

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivables (Payables)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	SBC Group Merida & Centurion	Associate	Sale	\$ (18,246,993)	(78)	O/A 60 days	\$ -	-	\$ 1,386,434	78	
		Subsidiary	Sale	(1,080,020)	(5)	D/A or O/A 150 days	-	-	-	-	
	Merida U.K. Merida Korea	Subsidiary	Sale	(259,540)	(1)	O/A 60 days	-	-	-	-	
		Associate	Sale	(302,974)	(1)	T/T 14 days or O/A 120 days	-	-	86,376	5	
	Merida Benelux SAIL & SURF	Subsidiary	Sale	(214,877)	(1)	O/A 180 days	-	-	20,058	1	
		Associate	Sale	(436,160)	(2)	T/T 14 days or D/A 180 days	-	-	12,985	1	
	Merida Bikes SWE	Associate	Sale	(203,183)	(1)	T/T 14 days or O/A 120 days	-	-	-	-	
	Merida Japan	Subsidiary	Sale	(129,605)	(1)	O/A 90 days	-	-	27,857	2	
	Merida Norge	Subsidiary	Sale	(263,695)	(1)	T/T 14 days or D/A 120 days	-	-	16,190	1	
	Merida Jiangsu	Third-tier subsidiary	Sale	(222,017)	(1)	O/A 90 days	-	-	40,616	2	
	Merida Polska	Subsidiary	Sale	(125,625)	(1)	O/A 150 days	-	-	31,563	2	
	Merida Czech	Associate	Sale	(117,878)	(1)	T/T 14 days or D/A 150 days	-	-	-	-	
	Merida Italy	Associate	Sale	(186,494)	(1)	D/A 90 days	-	-	54,672	3	
	Merida China	Third-tier subsidiary	Purchase	405,193	2	T/T 90 days	-	-	(55,167)	(1)	
Merida Jiangsu	Merida Shandong	Associate	Sale	RMB (170,896)	(75)	T/T 90 days	-	-	RMB 2,082	100	

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

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

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars and Foreign Currencies)

Company Name	Related Party	Relationship	Financial Statement Account	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
						Amount	Actions Taken		
The Corporation	SBC Group	Associate	Trade receivables from related parties	\$ 1,386,434	14.56	\$ -	-	\$ 1,386,434	\$ -
	SBC Group	Associate	Other receivables from related parties	10,679	-	-	-	10,679	-

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2021			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2021	December 31, 2020	Number of Shares (In Thousands)	%	Carrying Amount			
The Corporation	<u>Share capital</u> SBC	California, United States of America	Design, development, manufacture and sale of bicycles	\$ 887,013	\$ 887,013	3,410	35	\$ 17,065,507	USD 442,314	\$ 4,336,070	
	Merida B.V.I.	British Virgin Islands	International investment	1,362,597	1,362,597	42,500	100	2,636,279	USD (273)	(7,638)	Subsidiary
	Merida & Centurion	Stuttgart, Germany	Sale of bicycles	103,725	103,725	-	51	543,537	EUR 7,992	135,155	Subsidiary
	Merida Polska	Gliwice, Poland	Sale of bicycles and bicycle components	113,170	113,170	-	74	86,894	PLN 4,624	24,831	Subsidiary
	Merida Norge	Lysaker, Norway	Sale of bicycles	151,459	151,459	198	75	124,983	NOK 13,567	33,119	Subsidiary
	SAIL & SURF	Strobl, Austria	Sale of bicycles	116,195	116,195	-	40	122,672	EUR 1,625	21,555	
	Merida Czech	Brno, Czech Republic	Sale of bicycles	21,042	21,042	-	45	52,107	CZK 18,980	11,016	
	Merida Bikes SWE	Madrid, Spain	Sale of bicycles	18,646	18,646	1	36	77,185	EUR 1,638	19,753	
	WideDoctor	Changhua, Taiwan	Marketing of daily necessities	16,900	16,900	690	26	3,078	(3,138)	(802)	
	Merida Slovakia	Partizanska, Slovakia	Sale of bicycles	40	40	-	30	26,362	EUR 339	3,368	
	Merida Japan	Kanagawa, Japan	Sale of bicycles	118,875	118,875	2	90	59,761	JPY (24,790)	(5,699)	Subsidiary
	Merida Italy	Reggio Emilia, Italy	Sale of bicycles	19,011	19,011	559	27	13,230	EUR 267	2,417	
	Merida Benelux	Beekbergen, Netherlands	Sale of bicycles	65,400	65,400	766	60	(41,053)	EUR 1,111	22,107	Subsidiary
	Merida U.K.	Nottingham, United Kingdom	Sale of bicycles	40,309	40,309	482	81	135,554	GBP 1,563	49,000	Subsidiary
	Merida Korea	Seoul, Republic of Korea	Sale of bicycles	10,598	10,598	77	40	12,881	KRW (11,379)	(112)	
Merida B.V.I.	<u>Share capital</u> Merida Hong Kong	Hong Kong	International investment and trade	USD 27,087	USD 27,087	202,800	100	USD 65,270	HKD 21,623	(Note 1)	Indirectly owned subsidiary
	Merida SAMOA	Samoa	International investment	USD 24,500	USD 24,500	24,500	70	USD 13,933	USD (4,318)	(Note 1)	Indirectly owned subsidiary
Merida Norge	<u>Share capital</u> Merida Sverige AB	Gothenburg, Sweden	Sale of bicycles	NOK 814	NOK 814	-	100	NOK 7,218	SEK 5,468	(Note 1)	Indirectly owned subsidiary
Merida & Centurion	<u>Share capital</u> Merida Europe GmbH	Stuttgart, Germany	Brand promotion and cycling team management	EUR 25	EUR 25	-	100	EUR 1,359	EUR 229	(Note 1)	Indirectly owned subsidiary
	Merida R&D Center GmbH	Stuttgart, Germany	Design and development of bicycles	EUR 25	EUR 25	-	100	EUR 325	EUR 15	(Note 1)	Indirectly owned subsidiary
Merida Japan	<u>Share capital</u> Miyata	Kanagawa, Japan	Sale of bicycles	JPY 62,371	JPY 62,371	-	100	JPY 53,701	JPY (8,240)	(Note 1)	Indirectly owned subsidiary

Note 1: Not applicable.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars and Foreign Currencies)

Cadastral District Number	Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2021	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2021	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2021 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2021
						Outward	Inward						
4403	Merida China	Manufacture and sale of bicycles	\$ 339,910 (USD 12,280)	The investment was made through a corporation established in a third country, which, in turn, invested in companies located in mainland China	\$ 306,888 (USD 11,087)	\$ -	\$ -	\$ 306,888 (USD 11,087)	\$ (66,876)	100	\$ (66,876)	\$ 337,116	\$ 1,237,490 (USD 44,707)
3714	Merida Shandong	Manufacture and sale of e-bikes and bicycles	442,880 (USD 16,000)	The investment was made through a corporation established in a third country, which, in turn, invested in companies located in mainland China	442,880 (USD 16,000)	-	-	442,880 (USD 16,000)	141,497	100	141,497	995,802	717,549 (USD 25,923)
3206	Merida Jiangsu	Manufacture and sale of bicycles	968,800 (USD 35,000)	The investment was made through a corporation established in a third country, which, in turn, invested in companies located in mainland China	456,720 (USD 16,500)	-	-	456,720 (USD 16,500)	(120,940)	70	(84,658)	356,282	-

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2021	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by the Investment Commission, MOEA	Accumulated Investment Amount from Taiwan due to Disposal of Companies in Mainland China at the end of the Current Period (Including Sales, Liquidation, Dissolution, Mergers and Bankruptcy)	Repatriation of Investment Income from Disposal of Companies in Mainland China as of the end of the Current Period (Including Sales, Liquidation, Dissolution, Mergers and Bankruptcy)
\$ 1,206,488 (USD 43,587)	\$ 1,265,391 (USD 45,715) (Note 2)	\$ 11,143,034 (Note 3)	\$ -	\$ -

Note 1: The investment gain (loss) and carrying amount as of December 31, 2021 are recognized according to the financial statements audited by the Corporation's independent auditors.

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

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

TABLE 9**MERIDA INDUSTRY CO., LTD.****INFORMATION OF MAJOR SHAREHOLDERS
DECEMBER 31, 2021**

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

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

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MERIDA INDUSTRY CO., LTD.

STATEMENT OF CASH

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars and Foreign Currencies)

Item	Foreign Currency	Exchange Rate	Amount
Cash on hand and petty cash			\$ 226
Cash in banks			
Demand deposits			459,942
Foreign currency deposits			
USD	31,073	27.68	860,109
EUR	5,349	31.32	167,533
JPY	60,987	0.2405	<u>14,667</u>
			<u>\$ 1,502,477</u>

MERIDA INDUSTRY CO., LTD.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Type and Name of Marketable Securities	Number of Shares/Units	Acquisition Cost	Market Value	
			Unit Price	Total Amount
Mutual funds				
Franklin Templeton sinoam Money Market Fund	19,139,214	\$ 200,000	10.4537	\$ 200,076
Mega Diamond Money Market Fund	15,780,961	200,000	12.6776	200,065
Cathay Taiwan Money Market Fund	7,963,749	100,000	12.5588	100,015
Yuanta De-Bao Money Market Fund	8,247,899	<u>100,000</u>	12.1299	<u>100,046</u>
		<u>600,000</u>		<u>600,202</u>
Domestic listed shares				
Cheng Shin	1,145,814	49,858	36.10	41,364
Leechi Enterprises Co., Ltd.	112,750	<u>4,777</u>	27.25	<u>3,072</u>
		<u>54,635</u>		<u>44,436</u>
		<u>\$ 654,635</u>		<u>\$ 644,638</u>

MERIDA INDUSTRY CO., LTD.

STATEMENT OF ACCOUNTS RECEIVABLE

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Client Name	Amount
Notes receivable - non-related parties	
Acetrikes Ind. Co., Ltd.	\$ 15,260
Tempered Products Inc.	1,193
Others (Note)	<u>243</u>
	<u>\$ 16,696</u>
Accounts receivable - non-related parties	
ADVANCE TRADERS (AUSTRALIA) PTY LTD.	\$ 27,447
Acetrikes Ind. Co., Ltd.	25,867
ACE HARDWARE INDONESIA	7,626
ADVANCE TRADERS (NEW ZEALAND) LIMITED	6,085
BIKEFUN LTD.	5,653
Others (Note)	<u>8,635</u>
	81,313
Less: Allowance for impairment loss	<u>(407)</u>
Total	<u>\$ 80,906</u>

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

MERIDA INDUSTRY CO., LTD.

STATEMENT OF OTHER RECEIVABLES

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Item	Amount
Technical service and royalty receivable	\$ 67,201
Tax refund receivable	13,156
Others	<u>12,100</u>
	<u>\$ 92,457</u>

MERIDA INDUSTRY CO., LTD.

STATEMENT OF INVENTORIES

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Item	Amount	
	Cost	Market Price (Note 1)
Finished goods	\$ 1,091,128	\$ 1,183,292
Work in process	197,329	197,329
Raw materials and supplies	3,859,900	3,906,693
Inventory in transit	<u>62,910</u>	<u>62,910</u>
	<u>\$ 5,211,267</u>	<u>\$ 5,350,224</u>

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

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

MERIDA INDUSTRY CO., LTD.

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Investees	Balance, January 1, 2021			Increase in the Current Year		Decrease in the Current Year		Balance, December 31, 2021			Accumulated Impairment
	Number of Shares	Amount	Ownership (%)	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Ownership (%)	
Domestic unlisted shares											
SR Suntour Inc.	110,000	\$ 3,000	-	-	\$ -	-	\$ -	110,000	\$ 3,000	-	\$ -
Taifong Golf Course	30,000	400	-	-	-	-	-	30,000	400	-	-
Long Jee Holdings Pte. Ltd.	330,000	-	2	-	-	-	-	330,000	-	2	-
		<u>3,400</u>			<u>-</u>		<u>-</u>		<u>3,400</u>		<u>-</u>
Overseas unlisted shares											
Merida Benelux	2,748,367	<u>89,220</u>	-	-	<u>-</u>	-	<u>-</u>	2,748,367	<u>89,220</u>	-	<u>-</u>
		<u>\$ 92,620</u>			<u>\$ -</u>		<u>\$ -</u>		<u>\$ 92,620</u>		<u>\$ -</u>

MERIDA INDUSTRY CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)

Investees	Balance, January 1, 2021			Increase in the Current Year		Decrease in the Current Year		Others (Note)	Share of Profit (Loss) of Subsidiaries and Associates	Exchange Differences on Translating the Financial Statements of Foreign Operations	Realized (Unrealized) Gain on Transactions	Balance, December 31, 2021			Net Assets Value
	Number of Shares	Amount	Ownership (%)	Number of Shares	Amount	Number of Shares	Amount					Number of Shares	Amount	Ownership (%)	
Long-term Investments															
SBC	3,409,982	\$ 13,544,791	35	-	\$ -	-	\$ -	\$ -	\$ 4,336,070	\$ (627,863)	\$ (187,491)	3,409,982	\$ 17,065,507	35	\$ 16,595,893
Merida B.V.I.	42,500,000	2,686,883	100	-	-	-	-	-	(7,638)	(42,966)	-	42,500,000	2,636,279	100	2,636,560
Merida & Centurion	-	491,153	51	-	-	-	-	-	135,155	(62,107)	(20,664)	-	543,537	51	543,537
Merida Polska	100	66,506	74	-	-	-	-	-	24,831	(8,566)	4,123	100	86,894	74	86,894
Merida Norge	198,000	97,759	75	-	-	-	-	-	33,119	(6,096)	201	198,000	124,983	75	124,983
SAIL & SURF	-	114,561	40	-	-	-	-	-	21,555	(12,546)	(898)	-	122,672	40	113,229
Merida Czech	-	42,587	45	-	-	-	-	-	11,016	(1,776)	280	-	52,107	45	49,275
Merida Bikes SWE	448	70,268	36	-	-	-	-	(4,622)	19,753	(8,391)	177	448	77,185	36	77,185
Wide Doctor	690,000	3,880	26	-	-	-	-	-	(802)	-	-	690,000	3,078	26	3,078
Merida Slovakia	-	25,978	30	-	-	-	-	-	3,368	(2,990)	6	-	26,362	30	26,362
Merida Japan	1,800	68,877	90	-	-	-	-	-	(5,699)	(8,538)	5,121	1,800	59,761	90	51,454
Merida U.K.	481,763	84,156	81	-	-	-	-	-	49,000	(4,900)	7,298	481,763	135,554	81	122,070
Merida Korea	76,560	14,329	40	-	-	-	-	(343)	(112)	(1,627)	634	76,560	12,881	40	12,882
Merida Italy	559,050	11,822	27	-	-	-	-	-	2,417	(1,467)	458	559,050	13,230	27	13,231
		<u>17,323,550</u>			<u>-</u>		<u>-</u>	<u>(4,965)</u>	<u>4,622,033</u>	<u>(789,833)</u>	<u>(190,755)</u>		<u>20,960,030</u>		<u>20,456,633</u>
Long-term Investments - credit															
Merida Benelux	766,126	(67,098)	60	-	-	-	-	-	22,107	(590)	4,528	766,126	(41,053)	60	(41,053)
		<u>\$ 17,256,452</u>			<u>\$ -</u>		<u>\$ -</u>	<u>\$ (4,965)</u>	<u>\$ 4,644,140</u>	<u>\$ (790,423)</u>	<u>\$ (186,227)</u>		<u>\$ 20,918,977</u>		<u>\$ 20,415,580</u>

Note: Merida Bikes SWE and Merida Korea have declared the distribution of cash dividends.

MERIDA INDUSTRY CO., LTD.**STATEMENT OF ACCOUNTS PAYABLE****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars)**

Vendor Name	Amount
Non-related parties	
SRAM Corporation, Taiwan	\$ 846,141
FOX FACTORY, TAIWAN	428,758
NEW SCORE INVESTMENT LIMITED	354,390
TREND POWER TECHNOLOGY PRIVATE LIMITED	270,418
MARUI LTD.	243,258
TOPKEY CORPORATION	203,540
Others (Note)	<u>1,595,232</u>
	<u>\$ 3,941,737</u>

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

MERIDA INDUSTRY CO., LTD.**STATEMENT OF NET REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Item	Shipment	Amount
Bikes	About 718 thousand units	\$ 22,187,405
Frames		352,149
Rims		439,307
Other parts		<u>462,691</u>
Gross sales		23,441,552
Less: Sales returns		(211)
Sales discounts and allowances		<u>(6,473)</u>
Net sales		<u>\$ 23,434,868</u>

MERIDA INDUSTRY CO., LTD.

STATEMENT OF OPERATING COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (In Thousands of New Taiwan Dollars)

Item	Amount
Raw material and supplies, beginning of year	\$ 1,466,814
Add: Raw material and supplies purchased	22,326,982
Less: Sale of raw material and supplies	(11,355)
Raw material and supplies, end of year	(3,994,358)
Loss on raw material and supplies	(917)
Raw material and supplies scrapped	(1,141)
Other	<u>(74,697)</u>
Raw material and supplies used	19,711,328
Direct labor	947,064
Manufacturing expenses	<u>564,169</u>
Manufacturing cost	21,222,561
Add: Work in process, beginning of year	739,306
Less: Work in process, end of year	(197,329)
Sale of work in process	(662,631)
Work in process scrapped	<u>(1,855)</u>
Cost of finished goods	21,100,052
Add: Finished goods, beginning of year	594,723
Less: Finished goods, end of year	(1,093,474)
Transferred to other expenses	<u>(2,116)</u>
Cost of goods sold	20,599,185
Sales of raw material and supplies	11,355
Sale of work in process	662,631
Scrapped and loss on inventories	3,913
Revenue from sale of scraps	(5,198)
Reversal of write-downs of inventories	<u>53,093</u>
Operating costs	<u>\$ 21,324,979</u>

MERIDA INDUSTRY CO., LTD.**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Item	Selling and Marketing Expenses	General and Administrative Expenses	Total
Advertisement	\$ 196,313	\$ -	\$ 196,313
Payroll and annual bonus	131,506	207,405	338,911
Remuneration of directors	-	167,570	167,570
Shipping expense	50,358	-	50,358
Insurance expense	29,474	6,621	36,095
Export expense	11,368	-	11,368
Depreciation expense	7,782	6,096	13,878
Professional service fees	433	9,446	9,879
Others	<u>87,067</u>	<u>36,281</u>	<u>123,348</u>
Total	<u>\$ 514,301</u>	<u>\$ 433,419</u>	<u>\$ 947,720</u>