Merida Industry Co., Ltd.

Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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

In our opinion, based on our audits and the reports of other auditors (refer to the Other Matter section of this report), the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

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

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

Revenue Recognition

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

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

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

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

<u>Inventory valuation</u>

As of December 31, 2019, the Corporation's inventory was NT$1,379,762 thousand. Refer to Notes 4, 5 and 9 to the financial statements for disclosures related to inventory. Inventories are stated at the lower of cost or net realizable value. As the determination of the net realizable value and estimation of the consumption of inventory based on aging is subject to estimation and judgment, inventory valuation was identified as a key audit matter.

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

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

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

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

4. We observed the year-end inventory counts and evaluated the condition of the inventory to assess the adequacy of the provision for loss on damaged inventory.

Other Matter

We did not audit the financial statements of some of the investees accounted for using the equity method as of and for the years ended December 31, 2019 and 2018, but such financial statements were audited by other auditors, whose reports have been furnished to us. The balance of the investments accounted for using the equity method was NT$10,440,751 thousand and NT$9,415,791 thousand, accounting for 46% of the Corporation's total assets as of both December 31, 2019 and 2018. The share of profit of associates was NT$1,374,891 thousand and NT$1,034,660 thousand, accounting for 66% and 59% of the Corporation's total comprehensive income for the years ended December 31, 2019 and 2018, respectively.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 24, 2020

Notice to Readers

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

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

MERIDA INDUSTRY CO., LTD.

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

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

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

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

MERIDA INDUSTRY CO., LTD.

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

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

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

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

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

MERIDA INDUSTRY CO., LTD.

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

		Capital Surplus (Note 18)		Retained Earnings (Note 18)			Other Equity		
	Common Shares (Note 18)	Share Premium from Issuance of Common Shares	Capital surplus from Investments Accounted for Using the Equity Method	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total
BALANCE AT JANUARY 1, 2018	$ 2,989,838	$ 416,290	$ 258	$ 2,232,113	$ 264,429	$ 6,489,871	$ (832,116)	$ 24,492	$ 11,585,175
Effect of retrospective application	-	-	-	-	-	24,492	-	(24,492)	-
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	2,989,838	416,290	258	2,232,113	264,429	6,514,363	(832,116)	-	11,585,175
Appropriation of 2017 earnings									
Legal reserve	-	-	-	79,736	-	(79,736)	-	-	-
Special reserve	-	-	-	-	543,195	(543,195)	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(597,968)	-	-	(597,968)
Net profit for the year ended December 31, 2018	-	-	-	-	-	1,708,835	-	-	1,708,835
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	(6,492)	62,626	-	56,134
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	-	1,702,343	62,626	-	1,764,969
BALANCE AT DECEMBER 31, 2018	2,989,838	416,290	258	2,311,849	807,624	6,995,807	(769,490)	-	12,752,176
Appropriation of 2018 earnings									
Legal reserve	-	-	-	170,884	-	(170,884)	-	-	-
Reversal of special reserve	-	-	-	-	(38,135)	38,135	-	-	-
Cash dividends distributed by the Corporation	-	-	-	-	-	(1,046,443)	-	-	(1,046,443)
Difference between carrying amount and consideration on the actual acquisition or disposal of equity interests in subsidiaries	-	-	(258)	-	-	(19,836)	-	-	(20,094)
Net profit for the year ended December 31, 2019	-	-	-	-	-	2,502,443	-	-	2,502,443
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	(15,838)	(393,559)	-	(409,397)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	2,486,605	(393,559)	-	2,093,046
BALANCE AT DECEMBER 31, 2019	$ 2,989,838	$ 416,290	$ -	$ 2,482,733	$ 769,489	$ 8,283,384	$ (1,163,049)	$ -	$ 13,778,685

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

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

MERIDA INDUSTRY CO., LTD.

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

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

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MERIDA INDUSTRY CO., LTD.

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

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

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

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

MERIDA INDUSTRY CO., LTD.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(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 24, 2020.

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

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

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

   IFRS 16 "Leases"

   IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

   Definition of a lease

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

   The Corporation as lessee

   The Corporation recognizes right-of-use assets and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Corporation presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the statements of cash flows. Leased assets and finance lease payables were recognized on the balance sheets for contracts classified as finance leases.

The Corporation elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Corporation applies IAS 36 to all right-of-use assets.

The Corporation also applies the following practical expedients:

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

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

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

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

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

The lessee’s weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.08%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	$ 11,982
Less: Recognition exemption for short-term leases	(977)
Less: Recognition exemption for leases of low-value assets	(342)
Undiscounted amount on January 1, 2019	$ 10,663
Discounted amount using the incremental borrowing rate on January 1, 2019	$ 10,417
Lease liabilities recognized on January 1, 2019	$ 10,417

The Corporation as lessor

The Corporation does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments for leases - current	$ 223	$ (51)	$ 172
Right-of-use assets	-	10,468	10,468
Total effect on assets	$ 223	$ 10,417	$ 10,640
Lease liabilities - current	$ -	$ 3,970	$ 3,970
Lease liabilities - non-current	-	6,447	6,447
Total effect on liabilities	$ -	$ 10,417	$ 10,417

b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

Note 2: The Corporation shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

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

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

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

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

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

Current assets include:

1) Assets held primarily for the purpose of trading;

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

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

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

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

3) Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

d. Foreign currencies

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

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

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

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

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

Depreciation of property, plant and equipment 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 effect of any changes in the estimate accounted for on a prospective basis.

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

h. Investment properties

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

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

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

i. Intangible assets

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

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

j. Impairment of tangible and intangible assets

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

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

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

k. Financial instruments

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

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

1) Financial assets

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

a) Measurement categories

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

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 25.

ii. Financial assets at amortized cost

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

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

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

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

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

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

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

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

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

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, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

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

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) Financial liabilities

a) Subsequent measurement

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

b) Derecognition of financial liabilities

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

3) Derivative financial instruments

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

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

l. Revenue recognition

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

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

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

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

m. Leases

2019

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.

2018

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.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

n. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

o. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for 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 about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

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. CASH AND CASH EQUIVALENTS

	December 31	
	2019	**2018**
Cash on hand	$ 261	$ 290
Checking accounts and demand deposits	1,185,881	439,439
Cash equivalents		
Time deposits with original maturities of less than 3 months	350,966	902,073
	$ 1,537,108	$ 1,341,802
Time deposit interest rate per annum (%)	0.50-2.21	0.60-3.00

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
Financial assets		
Non-derivative financial assets		
Mutual funds	$ 951,309	$ 380,169
Domestic listed shares	127,500	119,526
Financial assets at FVTPL - current	$ 1,078,809	$ 499,695

8. TRADE RECEIVABLES

	December 31	
	2019	2018
Trade receivables	$ 3,342,261	$ 2,753,638
Less: Allowance for impairment loss	(5,423)	(6,780)
	$ 3,336,838	$ 2,746,858

In principle, the payment term granted to customers is 90 days from the invoice date and D/A or O/A of 60 to 180 days. The Corporation adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Corporation uses other publicly available financial information or its own trading records to rate its major customers. The Corporation's exposure and the credit ratings of its counterparties are continuously monitored.

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

The Corporation applies the simplified approach to providing for expected credit losses, 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, 2019

	Not Past Due	Past due up to 3 months	Total
Expected credit loss rate	0%-0.5%	3%	
Gross carrying amount	$ 3,255,549	$ 86,712	$ 3,342,261
Loss allowance (Lifetime ECLs)	(1,075)	(4,348)	(5,423)
Amortized cost	$ 3,254,474	$ 82,364	$ 3,336,838

December 31, 2018

	Not Past Due	Past due up to 3 months	Total
Expected credit loss rate	0%-0.5%	4%	
Gross carrying amount	$ 2,646,774	$ 106,864	$ 2,753,638
Loss allowance (Lifetime ECLs)	(2,432)	(4,348)	(6,780)
Amortized cost	$ 2,644,342	$ 102,516	$ 2,746,858

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

	For the Year Ended December 31	
	2019	2018
Balance at January 1	$ 6,780	$ -
Less: Impairment loss recognized (reversed) in the current year	(1,357)	6,780
Balance at December 31	$ 5,423	$ 6,780

9. INVENTORIES

	December 31	
	2019	2018
Finished goods	$ 362,755	$ 245,699
Work in progress	412,822	508,490
Raw materials and supplies	505,882	808,085
Inventory in transit	98,303	59,415
	$ 1,379,762	$ 1,621,689

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was $22,231,166 thousand and $20,428,043 thousand, respectively.

The cost of goods sold for the years ended December 31, 2019 and 2018 included reversals of inventory write-downs of $3,300 thousand and $12,213 thousand, respectively. Previous write-downs were actively reversed by the Corporation as a result of depleted inventory. The related amounts were reflected in the cost of goods sold.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2019	2018
Non-current		
Overseas unlisted shares	$ 89,220	$ 89,220
Domestic unlisted shares	3,400	3,400
	$ 92,620	$ 92,620

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

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2019	2018
Investments in subsidiaries	$ 3,150,258	$ 3,214,605
Investments in associates	10,658,905	9,708,922
	$ 13,809,163	$ 12,923,527

a. Investments in subsidiaries

	December 31	
	2019	2018
Unlisted shares		
Merida International (B.V.I) Ltd. ("Merida B.V.I.")	$ 2,711,078	$ 2,912,131
Merida & Centurion Germany GmbH ("Merida & Centurion")	268,934	205,764
Stians Sport AS ("Stians")	66,648	-
Merida Polska Sp.z.o.o ("Merida Polska")	43,076	66,334
Miyata Cycle Co., Ltd ("Miyata")	40,990	-
Merida Bicycles Ltd. ("Merida U.K.")	19,532	30,376
	$ 3,150,258	$ 3,214,605
Credit Balance of Investments Accounted for Using the Equity Method		
Merida Benelux B.V. ("Merida Benelux")	$ 86,731	$ 68,833

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

	December 31	
	2019	**2018**
Merida B.V.I.	100%	100%
Merida & Centurion	51%	51%
Stians	75%	34%
Merida Polska	74%	74%
Miyata	70%	45%
Merida U.K.	81%	81%
Merida Benelux	60%	60%

Since Merida Benelux has been continuously suffering an operating loss, equity has been negative. The Corporation continuously supports this company and recognizes the company's share of loss and credit balance of investments accounted for using the equity method.

In July 2019, the Corporation acquired 500 common shares of Miyata through cash of $23,766 thousand. After the acquisition, the shareholding proportion increased to 70%, and the Corporation obtained control over Miyata and included it in the Group's consolidated financial statements since July 1, 2019.

In December 2019, the Corporation increased its capital in Stians by acquiring 164,000 of its common shares through cash of $121,679 thousand. After the capital increase, the shareholding proportion increased to 75%, and the Corporation obtained control over Stians and included it in the Group's consolidated financial statements since December 2, 2019.

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

Refer to Table 7 "Information on Investees" following the Notes to Financial Statements for the nature of activities, principal place of business and country of incorporation of the Corporation's subsidiaries.

b. Investments in associates

	December 31	
	2019	**2018**
Unlisted shares		
Specialized Bicycle Components, Inc. ("SBC")	$ 10,440,751	$ 9,415,791
SAIL & SURF Produktion-und Handelsgesellschaft m.b.H. ("SAIL & SURF")	92,846	90,083
Merida Bikes SWE, S.A ("Merida Bikes SWE")	57,167	70,158
Merida Czech s.r.o ("Merida Czech")	31,745	33,892
Merida Slovakia s.r.o ("Merida Slovakia")	21,178	21,432
Merida Korea Inc. ("Merida Korea")	11,202	12,820
WideDoctor (International) Enterprise Co., Ltd. ("WideDoctor")	4,016	4,319
Stians Sport AS ("Stians")	-	18,117
Merida Italy S.r.l ("Merida Italy")	-	6,219
Miyata Cycle Co., Ltd. (" Miyata")	-	36,091
	$ 10,658,905	$ 9,708,922

(Continued)

	December 31	
	2019	2018
Credit Balance of Investments Accounted for Using the Equity Method		
Merida Italy S.r.l ("Merida Italy")	$ 1,740	$ -

(Concluded)

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

	December 31	
	2019	2018
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%
Miyata	-	45%
Stians	-	34%

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	
	2019	2018
The Corporation's share of:		
Profit for the year	$ 1,350,284	$ 1,066,133
Other comprehensive loss for the year	(252)	(174,730)
Total comprehensive income for the year	$ 1,350,032	$ 891,403

Except for Merida Italy and Merida Korea for the year ended December 31, 2019 and Merida Italy, Merida Korea, Merida Bikes SWE and WideDoctor for the year ended December 31, 2018, investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. Management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of these associates which have not been audited.

12. PROPERTY, PLANT AND EQUIPMENT

	For the Year Ended December 31, 2019				
	Beginning Balance	Additions	Disposals	Reclassifi-cations	Ending Balance
Cost					
Land	$ 474,891	$ -	$ -	$ -	$ 474,891
Buildings and improvements	640,061	-	-	11,128	651,189
Machinery and equipment	263,220	513	(32,000)	24,827	256,560
Transportation equipment	2,348	-	(317)	458	2,489
Miscellaneous equipment	42,868	11,497	(13,835)	1,001	41,531
Construction in progress	4,199	6,929	-	(11,128)	-
	1,427,587	$ 18,939	$ (46,152)	$ 26,286	1,426,660
Accumulated depreciation					
Buildings and improvements	284,264	$ 16,285	$ -	$ -	300,549
Machinery and equipment	87,712	32,605	(30,044)	-	90,273
Transportation equipment	1,225	493	(317)	-	1,401
Miscellaneous equipment	20,735	14,296	(13,616)	-	21,415
	393,936	$ 63,679	$ (43,977)	$ -	413,638
	$ 1,033,651				$ 1,013,022

	For the Year Ended December 31, 2018				
	Beginning Balance	Additions	Disposals	Reclassifi-cations	Ending Balance
Cost					
Land	$ 474,891	$ -	$ -	$ -	$ 474,891
Buildings and improvements	626,834	2,294	-	10,933	640,061
Machinery and equipment	246,487	16,341	(4,268)	4,660	263,220
Transportation equipment	2,722	-	(981)	607	2,348
Miscellaneous equipment	64,933	14,098	(38,139)	1,976	42,868
Construction in progress	3,618	11,514	-	(10,933)	4,199
	1,419,485	$ 44,247	$ (43,388)	$ 7,243	1,427,587
Accumulated depreciation					
Buildings and improvements	258,767	$ 25,497	$ -	$ -	284,264
Machinery and equipment	62,018	29,518	(3,824)	-	87,712
Transportation equipment	1,694	512	(981)	-	1,225
Miscellaneous equipment	38,249	20,400	(37,914)	-	20,735
	360,728	$ 75,927	$ (42,719)	$ -	393,936
	$ 1,058,757				$ 1,033,651

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

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

13. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Land	$ 2,218
Buildings	433
Transportation equipment	4,157
	$ 6,808

	For the Year Ended December 31, 2019
Depreciation charge for right-of-use assets	
Land	$ (990)
Buildings	(472)
Transportation equipment	(2,595)
	$ (4,057)

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	
Current	$ 4,001
Non-current	$ 2,765

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	1.15%
Buildings	1.15%
Transportation equipment	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 and buildings at the end of the lease terms.

d. Other lease information

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	$ 2,484
Expenses relating to low-value asset leases	$ 268
Total cash outflow for leases	$ (6,800)

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.

14. INVESTMENT PROPERTIES

	December 31	
	2019	2018
Land	$ 20,309	$ 20,309
Buildings	23,977	23,977
Parking garages	6,953	6,953
Air-conditioning units	3,068	3,068
	54,307	54,307
Less: Accumulated depreciation	(18,904)	(18,336)
	$ 35,403	$ 35,971

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, 2019 and 2018 was $48,462 thousand and $48,000 thousand, respectively. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

15. SHORT-TERM BANK BORROWINGS

These refer to letters of credit due 180 days after acceptance. The range of annual interest rates on bank loans was no higher than 2.659% and 3.470% as of December 31, 2019 and 2018, respectively.

16. OTHER PAYABLES

	December 31	
	2019	2018
Payables for compensation to employees	$ 208,319	$ 167,530
Payables for salaries and bonuses	112,792	97,243
Payables for remuneration of directors and supervisors	90,271	72,597
Others	101,718	120,710
	$ 513,100	$ 458,080

17. 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:

	December 31	
	2019	2018
Present value of defined benefit obligation	$ 692,214	$ 654,877
Fair value of plan assets	(497,007)	(482,155)
Net defined benefit liabilities	$ 195,207	$ 172,722

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, 2018	$ 651,149	$ (492,520)	$ 158,629
Service costs			
Current service costs	9,887	-	9,887
Net interest expense (income)	7,985	(6,059)	1,926
Recognized in profit or loss	17,872	(6,059)	11,813
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(13,863)	(13,863)
Actuarial loss - changes in demographic assumptions	3,654	-	3,654
Actuarial loss - experience adjustments	20,941	-	20,941
Recognized in other comprehensive income	24,595	(13,863)	10,732
Contributions from the employer	-	(8,452)	(8,452)
Benefits paid	(38,739)	38,739	-
Balance at December 31, 2018	654,877	(482,155)	172,722
Service costs			
Current service costs	8,964	-	8,964
Net interest expense (income)	7,950	(5,841)	2,109
Recognized in profit or loss	16,914	(5,841)	11,073
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(16,369)	(16,369)
Actuarial loss - changes in financial assumptions	38,104	-	38,104
Actuarial profit - experience adjustments	(1,938)	-	(1,938)
Recognized in other comprehensive income	36,166	(16,369)	19,797
Contributions from the employer	-	(8,385)	(8,385)
Benefits paid	(15,743)	15,743	-
Balance at December 31, 2019	$ 692,214	$ (497,007)	$ 195,207

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2019	**2018**
Discount rate(s)	0.80%	1.25%
Expected rate(s) of salary increase	2.25%	2.00%

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

	December 31	
	2019	**2018**
Discount rate(s)		
0.50% increase	$ (27,634)	$ (26,995)
0.50% decrease	$ 29,515	$ 28,871
Expected rate(s) of salary increase		
0.50% increase	$ 28,949	$ 28,518
0.50% decrease	$ (27,394)	$ (26,939)

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	
	2019	**2018**
Expected contributions to the plans for the next year	$ 9,027	$ 7,932
Average duration of the defined benefit obligation	8.2 years	8.6 years

18. EQUITY

a. Common shares

	December 31	
	2019	**2018**
Number of shares authorized (in thousands)	350,000	350,000
Shares authorized	$ 3,500,000	$ 3,500,000
Number of shares issued and fully paid (in thousands)	298,984	298,984
Shares issued	$ 2,989,838	$ 2,989,838

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

b. Capital surplus

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

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

c. Retained earnings and dividends policy

Under the dividends policy as set forth in the amended Articles, where the Corporation made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to Note 21.

According to the 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.

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

Items referred to under Rule No. 1010012865 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Corporation.

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings in June 2019 and 2018, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31		**Dividends Per Share (NT$) For the Year Ended December 31**	
	2018	**2017**	**2018**	**2017**
Legal reserve	$ 170,884	$ 79,736		
Appropriation to (reversal of) special reserve	(38,135)	543,195		
Cash dividends	1,046,443	597,968	$ 3.5	$ 2.0

The appropriation of earnings for 2019 had been proposed by the Corporation's board of directors on March 24, 2020. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 250,244	
Special reserve	393,559	
Cash dividends	1,255,732	$ 4.2

The appropriation of earnings for 2019 are subject to the resolution of the shareholders in the shareholders' meeting to be held on June 24, 2020.

19. REVENUE

	For the Year Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from sale of goods	$ 25,004,210	$ 22,795,595

a. Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Notes and trade receivables (Note 8)	$ 3,345,543	$ 2,763,386	$ 1,984,778

b. Disaggregation of revenue

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

20. EMPLOYEE BENEFITS EXPENSE, DEPRECIATION AND AMORTIZATION EXPENSES

	Operating Costs	Operating Expenses	Non-Operating Expenses	Total
For the Year Ended December 31, 2019				
Short-term employee benefits				
Salary expenses	$ 715,071	$ 207,136	$ 13,509	$ 935,716
Labor and health insurance costs	47,588	9,345	1,799	58,732
Post-employment benefits				
Defined contribution plans	14,169	2,301	645	17,115
Defined benefit plan	8,639	2,241	193	11,073
Remuneration of directors	-	90,271	-	90,271
Other employee benefits	28,194	2,215	308	30,717
Depreciation expenses	51,570	16,166	568	68,304
Amortization expenses	-	866	-	866

	Operating Costs	Operating Expenses	Non-Operating Expenses	Total
For the Year Ended December 31, 2018				
Short-term employee benefits				
Salary Expenses	$ 641,617	$ 178,800	$ 13,256	$ 833,673
Labor and health insurance costs	45,561	8,555	1,692	55,808
Post-employment benefits				
Defined contribution plans	12,238	2,168	682	15,088
Defined benefit plan	9,344	2,328	141	11,813
Remuneration of directors	-	72,012	-	72,012
Other employee benefits	27,931	2,263	308	30,502
Depreciation expenses	56,562	19,365	567	76,494
Amortization expenses	-	1,844	-	1,844

a. As of December 31, 2019 and 2018, the Corporation had 1,121 and 1,087 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$946 thousand and NT$877 thousand for the years ended December 31, 2019 and 2018, respectively.

c. The average employee salary expenses was NT$840 thousand and NT$772 thousand for the years ended December 31, 2019 and 2018, respectively.

d. Average employee salary expenses adjusted by 8.81%.

Employees' compensation and remuneration of directors and supervisors

According to the Corporation's Articles of Incorporation, the Corporation accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 5% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018, which were approved by the Corporation's board of directors on March 24, 2020 and March 22, 2019, respectively, are as follows:

	For the Year Ended December 31			
	2019		2018	
Cash	Accrual Rate	Amount	Accrual Rate	Amount
Employees' compensation	6%	$ 208,319	6%	$ 167,530
Remuneration of directors and supervisors	2.6%	90,271	2.6%	72,597

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the TWSE.

21. TAXES

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

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	$ 428,799	$ 349,723
Income tax on unappropriated earnings	27,382	-
Adjustments for prior years	11,958	18,069
	468,139	367,792
Deferred tax		
In respect of the current year	202,805	165,743
Adjustments to deferred tax attributable to changes in tax rates and laws	-	309,676
	202,805	475,419
Income tax expense recognized in profit or loss	$ 670,944	$ 843,211

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

	For the Year Ended December 31	
	2019	2018
Income tax expense calculated at the statutory rate	$ 634,677	$ 510,409
Nondeductible expenses in determining taxable income	-	70
Tax-exempt income	(3,073)	4,987
Income tax on unappropriated earnings	27,382	-
Adjustments for prior years' tax	11,958	18,069
Effect of tax rate changes	-	309,676
Income tax expense recognized in profit or loss	$ 670,944	$ 843,211

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

In July 2019, the President of the ROC announced the amendments to the Statute of Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings.

b. Current liabilities

	December 31	
	2019	2018
Current tax liabilities		
Income tax payable	$ 272,744	$ 251,677

c. Changes in deferred tax assets and liabilities

	For the Year Ended December 31, 2019			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized intercompany profit	$ 92,850	$ 38,014	$ -	$ 130,864
Defined benefit obligation	31,250	412	3,959	35,621
Unrealized impairment loss on assets	12,498	-	-	12,498
Unrealized foreign currency exchange loss	-	6,605	-	6,605
Unrealized provision for loss on inventory	4,063	(660)	-	3,403
	$ 140,661	$ 44,371	$ 3,959	$ 188,991
Deferred tax liabilities				
Temporary differences				
Investments accounted for using the equity method	$ 2,351,526	$ 250,453	$ -	$ 2,601,979
Reserve for land revaluation increment tax	100,934	-	-	100,934
Unrealized foreign currency exchange gains	3,277	(3,277)	-	-
	$ 2,455,737	$ 247,176	$ -	$ 2,702,913

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Unrealized intercompany profit	$ 37,383	$ 55,467	$ -	$ 92,850
Defined benefit obligation	24,271	2,739	4,240	31,250
Unrealized impairment loss on assets	10,623	1,875	-	12,498
Unrealized provision for loss on inventory	5,530	(1,467)	-	4,063
	$ 77,807	$ 58,614	$ 4,240	$ 140,661
Deferred tax liabilities				
Temporary differences				
Investments accounted for using the equity method	$ 1,819,972	$ 531,554	$ -	$ 2,351,526
Reserve for land revaluation increment tax	100,934	-	-	100,934
Unrealized foreign currency exchange gains	798	2,479	-	3,277
	$ 1,921,704	$ 534,033	$ -	$ 2,455,737

d. Income tax assessments

The income tax returns of the Corporation through 2017 have been assessed by the tax authorities.

22. EARNINGS PER SHARE

	Net Profit Attributable to Owners of the Corporation	Number of Shares	Earnings Per Share (NT$)
For the Year Ended December 31, 2019			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	$ 2,502,443	298,983,800	$ 8.37
Effect of potentially dilutive common shares:			
Employees' compensation	-	1,391,304	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	$ 2,502,443	300,375,104	$ 8.33
For the Year Ended December 31, 2018			
Basic earnings per share			
Profit for the year attributable to owners of the Corporation	$ 1,708,835	298,983,800	$ 5.72
Effect of potentially dilutive common shares:			
Employees' compensation	-	1,371,300	
Diluted earnings per share			
Profit for the year attributable to owners of the Corporation plus effect of potentially dilutive common shares	$ 1,708,835	300,355,100	$ 5.69

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.

23. BUSINESS COMBINATIONS

Subsidiaries acquired

Name of Subsidiary	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred (Cash)
Miyata	Sale of bicycles	July 1, 2019	25	$ 23,766
Stians	Sale of bicycles	December 2, 2019	41	$ 121,679

The acquisition of Miyata and the cash capital increase in Stians were for the purpose of expanding the Corporation’s market share in the local bicycle market. For further details, refer to the Note 25 of consolidated financial statements for the year ended December 31, 2019.

24. CAPITAL MANAGEMENT

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

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

25. FINANCIAL INSTRUMENTS

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

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

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

1) The Corporation’s financial assets at FVTPL, financial assets at FVTOCT are measured at fair value using Level 1 inputs.

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

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

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

c. Categories of financial instruments

	December 31	
	2019	**2018**
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	$ 1,078,809	$ 499,695
Financial assets at amortized cost	5,102,456	4,201,597
Financial assets at FVTOCI - equity instruments	92,620	92,620

	December 31	
	2019	2018
Financial liabilities		
Financial liabilities at amortized cost	$ 5,658,103	$ 4,856,878

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

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

d. Financial risk management objectives and policies

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

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

1) Market risk

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

a) Foreign currency risk

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

The carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are set out in Note 28.

Sensitivity analysis

The Corporation was mainly exposed to the USD.

Assuming a 1% increase in the NTD against the USD, the pre-tax profit for the years ended December 31, 2019 and 2018 would have decreased by $25,747 thousand and $27,654 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, 2019 and 2018.

b) Interest rate risk

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

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

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	$ 350,966	$ 902,073
Financial liabilities	408,787	328,277
Cash flow interest rate risk		
Financial assets	1,185,881	439,439
Financial liabilities	443,944	411,276

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, 2019 and 2018 would have increased by $1,855 thousand and $70 thousand, respectively.

2) Credit risk

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

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

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

The Corporation's concentration of credit risk was mainly from the top 2 customers, which together accounted for 65% and 57% of the total trade receivables as of December 31, 2019 and 2018, respectively.

3) Liquidity risk

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

The Corporation relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, the Corporation had available unutilized bank loan facilities of $4,741,316 thousand and $4,229,024 thousand, respectively.

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

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

	On Demand or Less Than 1 Year	1-2 Years	2+ Years
December 31, 2019			
Non-interest bearing liabilities	$ 4,811,871	$ -	$ -
Lease liabilities	4,051	2,615	163
Variable interest rate liabilities	443,944	-	-
Fixed interest rate liabilities	402,021	-	-
Financial guarantee liabilities	445,785	7,493	262,002
	$ 6,107,672	$ 10,108	$ 262,165

Additional information about the maturity analysis for lease liabilities.

	Less Than 1 Year	1-5 Years	5-10 Years
Lease liabilities	$ 4,051	$ 2,778	$ -

	On Demand or Less Than 1 Year	1-2 Years	2+ Years
December 31, 2018			
Non-interest bearing liabilities	$ 4,117,323	$ -	$ -
Variable interest rate liabilities	411,276	-	-
Fixed interest rate liabilities	328,277	-	-
Financial guarantee liabilities	459,882	107,503	7,678
	$ 5,316,758	$ 107,503	$ 7,678

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

26. TRANSACTIONS WITH RELATED PARTIES

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

a. Related Party Categories / Names

Related Party	Relationship with the Corporation
Merida Polska	Subsidiary
Merida Benelux	Subsidiary
Merida & Centurion	Subsidiary
Merida U.K.	Subsidiary
Merida International (SAMOA) Ltd. (“Merida SAMOA”)	Subsidiary
Merida Industry (Hong Kong) Co., Ltd. (“Merida Hong Kong”)	Subsidiary
Merida Bicycle (China) Co., Ltd. (“Merida China”)	Subsidiary
Merida Bicycle (Shandong) Co., Ltd. (“Merida Shandong”)	Subsidiary
Merida Bicycle (Jiangsu) Ltd. (“Merida Jiangsu”)	Subsidiary
Merida Europe GmbH	Subsidiary
Merida R&D Center GmbH	Subsidiary
Miyata	Subsidiary (became a subsidiary since July 2019)
Stians	Subsidiary (became a subsidiary since December 2019)
Merida Sverige AB	Subsidiary (became a subsidiary since December 2019)
Merida Bikes SWE	Associate
SBC Group	Associate
SAIL & SURF	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

b. Sales of goods

	For the Year Ended December 31	
Related Party Category/Name	2019	2018
Associates		
SBC Group	$ 19,272,511	$ 16,442,542
Others	1,721,805	2,461,930
	20,994,316	18,904,472
Subsidiaries	2,603,333	2,085,282
Others	2,245	2,402
	$ 23,599,894	$ 20,992,156

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 2019	For the Year Ended December 31 2018
Subsidiaries	$ 840,830	$ 1,160,117
Others	99,131	102,098
Associates	20	173
	$ 939,981	$ 1,262,388

The purchase price is quoted based on market prices.

d. Receivables from related parties

Related Party Category/Name	December 31 2019	December 31 2018
Trade receivables		
Associates		
SBC Group	$ 1,484,798	$ 1,324,192
Others	260,397	641,388
	1,745,195	1,965,580
Subsidiaries		
Merida & Centurion	692,910	235,494
Others	771,015	428,374
	1,463,925	663,868
	$ 3,209,120	$ 2,629,448
Other receivables		
Subsidiaries		
Merida China	$ 27,355	$ 27,304
Merida Polska	114,067	24,926
Others	23,900	12,319
	165,322	64,549
Associates		
Merida Italy	37,379	-
Others	3,652	7,262
	41,031	7,262
Others	179	185
	$ 206,532	$ 71,996

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

	Less than 6 Months	6 Months to 1 Year	Over 1 Year	Total
December 31, 2019				
Subsidiaries				
Merida Polska	$ 6,498	$ 107,569	$ -	$ 114,067
Associate				
Merida Italy	37,379	-	-	37,379
	$ 43,877	$ 107,569	$ -	$ 151,446
December 31, 2018				
Subsidiaries				
Merida Polska	$ 19,167	$ 5,759	$ -	$ 24,926

e. Payables to related parties

Related Party Category	December 31 2019	December 31 2018
Trade payables		
Subsidiaries	$ 143,814	$ 154,265
Others	3,474	27,518
Associates	-	17
	$ 153,832	$ 181,800

f. Other transactions with related parties

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

Related Party Category	For the Year Ended December 31 2019	For the Year Ended December 31 2018
Subsidiaries	$ 143,814	$ 144,474
Associates	3,474	3,219
	$ 147,288	$ 147,693

2) Interest income

Related Party Category/Name	For the Year Ended December 31 2019	For the Year Ended December 31 2018
Subsidiaries		
Merida Benelux	$ 5,650	$ 6,977
Merida & Centurion	13,526	4,003
Others	2,268	1,263
	21,444	12,243

(Continued)

Related Party Category/Name	For the Year Ended December 31 2019	2018
Associates		
SBC Group	$ 12,501	$ 2,040
Merida Czech	5,291	7,836
Others	9,664	6,330
	27,456	16,206
	$ 48,900	$ 28,449

(Concluded)

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 2019	2018
Subsidiaries		
Merida China	$ 33,927	$ 33,068
Merida Shandong	9,118	6,948
Merida Jiangsu	3,232	1,938
	46,277	41,954
Associates		
Stians	674	-
	$ 46,951	$ 41,954

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

g. Endorsements and guarantees

Related Party Category/Name	Item Endorsed	Amount Endorsed
December 31, 2019		
Subsidiaries	Standby letter of credit	EUR 3,000
	Bank borrowings	EUR 24,500
	Bank borrowings	USD 7,250
	Bank borrowings	GBP 4,000

Related Party Category/Name	Item Endorsed	Amount Endorsed
December 31, 2018		
Subsidiaries	Standby letter of credit	EUR 3,000
	Bank borrowings	EUR 3,500
	Bank borrowings	USD 25,750
	Bank borrowings	GBP 4,000

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

h. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	$ 110,313	$ 109,833
Post-employment benefits	491	491
	$ 110,804	$ 110,324

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

27. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2019 and 2018 were as follows:

a. As of December 31, 2019 and 2018, unused letters of credit for purchases of raw materials amounted to approximately $669,888 thousand and $667,609 thousand, respectively.

b. Unrecognized commitments are as follows:

	December 31	
	2019	2018
Acquisition of property, plant and equipment	$ 19,872	$ 12,929

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.

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	December 31, 2019			December 31, 2018		
	Foreign Currency	Exchange Rate	Carrying Amount	Foreign Currency	Exchange Rate	Carrying Amount
Financial assets						
Monetary items						
USD	$ 128,818	29.980	$ 3,861,964	$ 120,457	30.715	$ 3,699,839
JPY	829,524	0.2760	228,949	666,346	0.2782	185,377
Non-monetary items						
Investments accounted for using the equity method						
USD	436,184	29.980	13,076,796	396,080	30.715	12,165,606
EUR	14,722	33.59	494,512	13,444	35.20	473,244
JPY	186,233	0.2760	51,400	137,344	0.2782	38,209
POL	8,578	7.89	67,654	10,262	8.142	83,554
Financial liabilities						
Monetary items						
USD	42,939	29.980	1,287,311	30,424	30.715	934,464
JPY	2,267,008	0.2760	625,694	2,029,088	0.2782	564,492

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

	For the Year Ended December 31			
	2019		2018	
Foreign Currency	Exchange Rate	Net Foreign Exchange Losses	Exchange Rate	Net Foreign Exchange Gains
USD	29.980	$ (44,651)	30.715	$ 3,304
JPY	0.276	11,820	0.2782	(2,920)
EUR	33.59	1,426	35.20	249
		$ (31,405)		$ 633

29. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (Table1)

2) Endorsements/guarantees provided. (Table 2)

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

4) Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital. (Table 4)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital. (None)

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

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 6)

9) Trading in derivative instruments.

   The Corporation has no outstanding forward contracts as of December 31, 2019 and 2018. The net profit from trading in derivative instruments is $318 thousand and $566 thousand in 2019 and 2018, respectively.

10) Information on investees. (Table 7)

b. Information on investments in mainland China:

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 8)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses:

   a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period. (Table 5)

   b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period. (Table 5)

   c) The amount of property transactions and the amount of the resultant gains or losses. (None)

   d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the year and their purposes. (Table 2)

   e) The highest balance, the end of year balance, the interest rate range, and total current period interest with respect to financing of funds. (Table 1)

   f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services. (None)

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2019
(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	Stians	Other receivables from related parties	Yes	$ -	$ -	$ -	3.96	For short-term financing needs	$ -	Operating capital	$ -	-	$ -	$ 5,511,474 (Note 1)	$ 6,889,342 (Note 3)
		Merida Polska	Other receivables from related parties	Yes	125,185	125,185	114,067	6.48	For short-term financing needs	-	Operating capital	-	-	-	5,511,474 (Note 1)	6,889,342 (Note 3)
		Merida Italy	Other receivables from related parties	Yes	110,497	-	37,379	4.00	For short-term financing needs	-	Operating capital	-	-	-	1,377,868 (Note 2)	6,889,342 (Note 3)
1	Merida Shandong	Merida Jiangsu	Other receivables from related parties	Yes	RMB 50,000	RMB 50,000	RMB 31,800	2.325	For short-term financing needs	-	Operating capital	-	-	-	RMB 68,987 (Note 4)	RMB 68,987 (Note 4)
2	Merida China	Merida Jiangsu	Other receivables from related parties	Yes	RMB 60,000	RMB 60,000	RMB 24,460	2.325	For short-term financing needs	-	Operating capital	-	-	-	RMB 42,481 (Note 5)	RMB 42,481 (Note 5)

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.

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars and Foreign Currencies)

No.	Endorser/Guarantor	Endorsee/Guaranteed Party		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity In Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given On Behalf of Companies in Mainland China
		Name	Relationship										
0	The Corporation	Merida U.K.	Subsidiary	$ 3,825,653	EUR 500 GBP 4,000	EUR 500 GBP 4,000	$ - GBP 3,882	$ -	1.28	$ 6,376,088	Yes	-	-
		Merida & Centurion	Subsidiary	3,825,653	EUR 27,000	EUR 27,000	EUR 13,400	-	6.69	6,376,088	Yes	-	-
		Merida Jiangsu	Indirectly owned subsidiary	3,825,653	USD 22,250	USD 7,250	USD 3,750	-	1.60	6,376,088	Yes	-	Yes

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

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

TABLE 3

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES)
DECEMBER 31, 2019
(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, 2019			
				Number of Shares (In Thousands)	Carrying Amount	Percentage of Ownership (%)	Fair Value (Note)
The Corporation	Mutual funds						
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at FVTPL - current	24,116	$ 250,301	-	$ 250,301
	Cathay Taiwan Money Market Fund	-	Financial assets at FVTPL - current	8,022	100,168	-	100,168
	Jih Sun Miney Market Fund	-	Financial assets at FVTPL - current	20,192	300,414	-	300,414
	Yuanta De-Bao Money Market Fund	-	Financial assets at FVTPL - current	24,903	300,426	-	300,426
	Share capital						
	Leechi Enterprises Co., Ltd.	-	Financial assets at FVTPL - current	113	1,025	-	1,025
	Cheng Shin	The Corporation’s chairman is their director	Financial assets at FVTPL - current	1,146	47,895	-	47,895
	Kuei Meng	-	Financial assets at FVTPL - current	734	78,580	-	78,580
	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 25 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, 2019
(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
The Corporation	Franklin Templeton Sinoam Money Market Fund	Financial assets at FVTPL - current	-	-	8,722	$ 90,022 (Note)	47,303	$ 490,000	31,909	$ 330,374	$ 330,000	$ 374	24,116	$ 250,301 (Note)
	Cathay Taiwan Money Market Fund	Financial assets at FVTPL - current	-	-	7,243	90,019 (Note)	27,286	340,000	26,507	330,319	330,000	319	8,022	100,168 (Note)
	Yuanta Wan Tai Money Market Fund	Financial assets at FVTPL - current	-	-	6,615	100,058 (Note)	17,145	260,000	23,760	360,391	360,000	391	-	-
	Jih Sun Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	20,192	300,000	-	-	-	-	20,192	300,414 (Note)
	Yuanta De-Bao Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	24,903	300,000	-	-	-	-	24,903	300,426 (Note)

Note: The net asset values are measured as of the balance sheet date at December 31, 2019.

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, 2019
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Company Name	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Trade Receivables (Payables)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Corporation	SBC Group	Investment accounted for using the equity method	Sale	$ (19,272,511)	(77)	O/A 60 days	$ -	-	$ 1,484,798	44	
	Merida & Centurion	Subsidiary	Sale	(1,557,201)	(6)	D/A or O/A 150 days	-	-	692,910	21	
	Stians	Subsidiary	Sale	(444,520)	(2)	T/T 14 days or D/A 120 days	-	-	228,984	7	
	Merida U.K.	Subsidiary	Sale	(309,723)	(1)	O/A 60 days	-	-	110,817	3	
	Merida Benelux	Subsidiary	Sale	(296,934)	(1)	O/A 180 days	-	-	183,015	5	
	SAIL & SURF	Investment accounted for using the equity method	Sale	(282,996)	(1)	T/T 14 days or D/A 180 days	-	-	42,240	1	
	Merida Korea	Investment accounted for using the equity method	Sale	(264,756)	(1)	O/A 120 days	-	-	-	-	
	Miyata	Subsidiary	Sale	(261,234)	(1)	O/A 90 days	-	-	74,603	2	
	Merida Bikes SWE	Investment accounted for using the equity method	Sale	(259,043)	(1)	T/T 14 days or D/A 60-120 days	-	-	35,735	1	
	Merida Polska	Subsidiary	Sale	(182,305)	(1)	O/A 150 days	-	-	164,691	5	
	Merida Czech	Investment accounted for using the equity method	Sale	(134,098)	(1)	D/A 150 days	-	-	72,541	2	
	Merida Italy	Investment accounted for using the equity method	Sale	(131,380)	(1)	D/A 90 days	-	-	93,821	3	
	Merida China	Indirectly owned subsidiary	Purchase	533,300	3	T/T 90 days	-	-	(91,211)	(2)	
	Merida Jiangsu	Indirectly owned subsidiary	Purchase	278,868	1	T/T 90 days	-	-	(28,908)	(1)	
Merida Shandong	Merida China	Associate	Sale	RMB (118,142)	(78)	T/T 90 days	-	-	RMB 644	8	
Merida Jiangsu	Merida China	Associate	Sale	RMB (66,423)	(47)	T/T 90 days	-	-	RMB 707	5	

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, 2019
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Company Name	Related Party	Relationship	Financial Statement Account	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
						Amount	Actions Taken		
The Corporation	SBC Group	Investment accounted for using the equity method	Trade receivables from related parties	$ 1,484,798	13.72	$ -	-	$ 1,484,798	$ -
	Merida & Centurion	Subsidiary	Trade receivables from related parties	692,910	3.35	-	-	528,132	-
			Other receivables from related parties	7,329	-	-	-	5,105	-
	Merida Benelux	Subsidiary	Trade receivables from related parties	183,015	1.62	-	-	42,380	-
			Other receivables from related parties	3,660	-	-	-	848	-
	Stians	Subsidiary	Trade receivables from related parties	228,984	2.69	-	-	-	-
			Other receivables from related parties	2,510	-	-	-	-	-
	Merida Polska	Subsidiary	Trade receivables from related parties	164,691	1.07	-	-		-
			Other receivables from related parties	114,067	-	114,067	Continued collection	14,278	-
	Merida U.K.	Subsidiary	Trade receivables from related parties	110,817	3.41	-	-	54,172	-
Merida Shandong	Merida Jiangsu	Associate	Trade receivables from related parties	RMB 66	26.37	-	-	RMB 22	-
			Other receivables from related parties	RMB 31,887	-	-	-	RMB 12,017	-
Merida China	Merida Jiangsu	Associate	Other receivables from related parties	RMB 24,490	-	-	-	RMB 15,030	-

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(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, 2019			Net Income (Loss) of the Investee	Share of Profit (Loss)	Note
				December 31, 2019	December 31, 2018	Number of Shares (In Thousands)	%	Carrying Amount			
The Corporation	Share capital										
	SBC	California, United States of America	Design, development, manufacture and sale of bicycles	$ 887,013	$ 887,013	$ 3,410	35	$ 10,440,751	USD 125,692	$ 1,374,891	
	Merida B.V.I.	British Virgin Islands	International investment	1,362,597	1,362,597	42,500	100	2,711,078	USD (3,249)	(100,424)	Subsidiary
	Merida & Centurion	Stuttgart, Germany	Sale of bicycles	103,725	31,713	-	51	268,934	EUR 2,872	50,695	Subsidiary
	Merida Polska	Gliwice, Poland	Sale of bicycles and bicycle components	113,170	113,170	-	74	43,076	PLN (2,262)	(13,500)	Subsidiary
	Stians	Lysaker, Norway	Sale of bicycles	151,459	29,780	198	75	66,648	NOK (17,952)	(28,970)	Subsidiary
	SAIL & SURF	Strobl, Austria	Sale of bicycles	116,195	116,195	-	40	92,846	EUR 478	6,618	
	Merida Czech	Brno, Czech Republic	Sale of bicycles	21,042	21,042	-	45	31,745	CZK (348)	(211)	
	Merida Bikes SWE	Madrid, Spain	Sale of bicycles	18,646	18,646	1	36	57,167	EUR (294)	(3,699)	
	WideDoctor	Changhua, Taiwan	Marketing of daily necessities	16,900	16,900	690	26	4,016	(1,186)	(303)	
	Merida Slovakia	Partizanska, Slovakia	Sale of bicycles	40	40	-	30	21,178	EUR 62	644	
	Miyata	Tokyo, Japan	Sale of bicycles	103,679	79,913	1	70	40,990	JPY (29,194)	(2,850)	Subsidiary
	Merida Italy	Reggio Emilia, Italy	Sale of bicycles	5,164	5,164	-	27	(1,740)	EUR (889)	(8,391)	
	Merida Benelux	Beekbergen, Netherlands	Sale of bicycles	65,400	65,400	766	60	(86,731)	EUR (710)	(14,746)	Subsidiary
	Merida U.K.	Nottingham, United Kingdom	Sale of bicycles	40,309	40,309	482	81	19,532	GBP 101	3,244	Subsidiary
	Merida Korea	Seoul, Republic of Korea	Sale of bicycles	10,598	10,598	77	40	11,202	KRW (97,669)	(1,045)	
Merida B.V.I.	Share capital										
	Merida Hong Kong	Hong Kong	International investment and trade	USD 27,087	USD 27,087	202,800	100	USD 57,125	HKD (6,509)	(Note)	Indirectly owned subsidiary
	Merida SAMOA	Samoa	International investment	USD 24,500	USD 24,500	24,500	70	USD 17,352	USD (3,454)	(Note)	Indirectly owned subsidiary
Stians	Share capital										
	Merida Sverige AB	Gothenburg, Sweden	Sale of bicycles	NOK 1,762	NOK 1,762	-	100	NOK 1,762	SEK (313)	(Note)	Indirectly owned subsidiary
Merida & Centurion	Share capital										
	Merida Europe GmbH	Stuttgart, Germany	Brand promotion and cycling team management	EUR 25	EUR 25	-	100	EUR 801	EUR 81	(Note)	Indirectly owned subsidiary
	Merida R&D Center GmbH	Stuttgart, Germany	Design and development of bicycles	EUR 25	EUR 25	-	100	EUR 275	EUR 21	(Note)	Indirectly owned subsidiary

Note : Not applicable.

TABLE 8

MERIDA INDUSTRY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(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, 2019	Remittance of Funds: Outward	Remittance of Funds: Inward	Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 1)	Carrying Amount as of December 31, 2019(Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2019
4403	Merida China	Manufacture and sale of bicycles	$ 368,154 (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	$ 332,388 (USD 11,087)	$	$	$ 332,388 (USD 11,087)	$ (10,442)	100	$ (10,442)	$ 457,220	$ 1,340,226 (USD 44,707)
3714	Merida Shandong	Manufacture and sale of e-bikes and bicycles	479,680 (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	479,680 (USD 16,000)			479,680 (USD 16,000)	(22,914)	100	(22,914)	742,502	777,172 (USD 25,923)
3206	Merida Jiangsu	Manufacture and sale of bicycles	1,049,300 (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	494,670 (USD 16,500)			494,670 (USD 16,500)	(107,857)	70	(75,500)	488,574	-

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2019	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)
$ 1,306,738 (USD 43,587)	$ 1,370,536 (USD 45,715) (Note 2)	$ 8,642,316 (Note 3)	$ -	$ -

Note 1: The investment gain (loss) and carrying amount as of December 31, 2019 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”.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

MERIDA INDUSTRY CO., LTD.

STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars and Foreign Currencies)

Item	Foreign Currency	Exchange Rate	Amount
Cash on hand and petty cash			$ 261
Cash in banks			
Demand deposits			610,964
Foreign currency deposits			
USD	12,666	29.980	379,714
EUR	1,221	33.590	41,006
JPY	558,684	0.2760	154,197
Cash equivalents			
Time deposits (Note 1)			300,000
Foreign currency time deposits			
USD (Note 2)	1,700	29.980	50,966
			$ 1,537,108

Note 1: Expiry in January 2020, annual interest rate of 0.50%.

Note 2: Expiry in January 2020, annual interest rate of 2.21%.

MERIDA INDUSTRY CO., LTD.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT
DECEMBER 31, 2019
(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				
Jih Sun Money Market Fund	20,192,368	$ 300,000	14.8776	$ 300,414
Yuanta De-Bao Money Market Fund	24,902,881	300,000	12.0639	300,426
Franklin Templeton Sinoam Money Market Fund	24,115,818	250,000	10.3791	250,301
Cathay Taiwan Money Market Fund	8,021,948	100,000	12.4868	100,168
		950,000		951,309
Domestic listed shares				
Kuei Meng	734,394	76,731	107.00	78,580
Cheng Shin	1,145,814	49,858	41.80	47,895
Leechi Enterprises Co., Ltd.	112,750	4,777	9.09	1,025
		131,366		127,500
		$ 1,081,366		$ 1,078,809

MERIDA INDUSTRY CO., LTD.

STATEMENT OF ACCOUNTS RECEIVABLE
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Client Name	Amount
Notes receivable - non-related parties	
Acetrikes Ind. Co., Ltd.	$ 6,478
Others (Note)	2,227
	$ 8,705
Accounts receivable - non-related parties	
ADVANCE TRADERS (AUSTRALIA) PTY LTD.	$ 53,750
Acetrikes Ind. Co., Ltd.	23,135
SLOPESTYLE LLC	13,105
BELIMPORT S.A. LUGAND	11,508
ROSEN & MEENTS	10,463
Others (Note)	16,478
	128,259
Less: Allowance for impairment loss	(541)
Total	$ 127,718

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, 2019
(In Thousands of New Taiwan Dollars)

Item	Amount
Technical service and royalty receivable	$ 37,415
Interest receivable	17,848
Others	161,566
	$ 216,829

MERIDA INDUSTRY CO., LTD.

STATEMENT OF INVENTORIES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

	Amount	
Item	**Cost**	**Market Price (Note 1)**
Finished goods	$ 362,755	$ 380,220
Work in process	412,822	422,324
Raw materials and supplies	505,882	514,885
Inventory in transit	98,303	98,303
	$ 1,379,762	$ 1,415,732

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, 2019
(In Thousands of New Taiwan Dollars)

	Balance, January 1, 2019			Increase in the current year		Decrease in the current year		Balance, December 31, 2019			
Investees	**Number of Shares**	**Amount**	**Ownership (%)**	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**	**Number of Shares**	**Amount**	**Ownership (%)**	**Accumulated Impairment**
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	-
		3,400			-		-		3,400		-
Overseas unlisted shares											
Merida Benelux	2,748,367	89,220	-	-	-	-	-	2,748,367	89,220	-	-
		$ 92,620			$ -		$ -		$ 92,620		$ -

MERIDA INDUSTRY CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

	Balance, January 1, 2019			Increase in the Current Year		Decrease in the Current Year				Exchange Differences on Translating the Financial Statements of Foreign Operations		Balance, December 31, 2019			
Investees	Number of Shares	Amount	Ownership (%)	Number of Shares	Amount	Number of Shares	Amount	Others (Note)	Share of Profit (Loss) of Subsidiaries and Associates		Realized (Unrealized) Gain on Transactions	Number of Shares	Amount	Ownership (%)	Net Assets Value
Long-term Investments															
SBC	3,409,982	$ 9,415,791	35	-	$ -	-	$ -	$ -	$ 1,374,891	$ (262,635)	$ (87,296)	3,409,982	$ 10,440,751	35	$ 10,365,449
Merida B.V.I.	42,500,000	2,912,131	100	-	-	-	-	-	(100,424)	(100,629)	-	42,500,000	2,711,078	100	2,711,360
Merida & Centurion	-	205,764	51	-	72,012	-	-	-	50,695	(17,148)	(42,389)	-	268,934	51	371,531
Merida Polska	100	66,334	74	-	-	-	-	-	(13,500)	(2,331)	(7,427)	100	43,076	74	67,722
Stians	34,000	18,117	34	164,000	121,679	-	-	(20,094)	(28,970)	1,338	(25,422)	198,000	66,648	75	96,997
SAIL & SURF	-	90,083	40	-	-	-	-	-	6,618	(4,196)	341	-	92,846	40	89,893
Merida Czech	-	33,892	45	-	-	-	-	-	(211)	(1,097)	(839)	-	31,745	45	36,791
Merida Bikes SWE	448	70,158	36	-	-	-	-	(9,684)	(3,699)	(3,000)	3,392	448	57,167	36	62,301
Wide Doctor	690,000	4,319	26	-	-	-	-	-	(303)	-	-	690,000	4,016	26	4,016
Merida Slovakia	-	21,432	30	-	-	-	-	-	644	(1,116)	218	-	21,178	30	23,516
Miyata	900	36,091	45	500	23,766	-	-	-	(2,850)	(2,356)	(13,661)	1,400	40,990	70	51,400
Merida U.K.	481,763	30,376	81	-	-	-	-	-	3,244	428	(14,516)	481,763	19,532	81	39,077
Merida Korea	76,560	12,820	40	-	-	-	-	-	(1,045)	(716)	143	76,560	11,202	40	11,202
		12,917,308			217,457		-	(29,778)	1,285,090	(393,458)	(187,456)		13,809,163		13,931,255
Long-term Investments - credit															
Merida Benelux	766,126	(68,833)	60	-	-	-	-	-	(14,746)	187	(3,339)	766,126	(86,731)	60	(62,669)
Merida Italy	-	6,219	27	-	-	-	-	-	(8,391)	(288)	720	-	(1,740)	27	3,027
		(62,614)			-		-	-	(23,137)	(101)	(2,619)		(88,471)		(59,642)
		$ 12,854,694			$ 217,457		$ -	$ (29,778)	$ 1,261,953	$ (393,559)	$ (190,075)		$ 13,720,692		$ 13,871,613

Note 1: Impact on shareholding proportion due to capital increase in cash in Stians.

Note 2: Merida Bikes SWE has declared the distribution of cash dividends.

MERIDA INDUSTRY CO., LTD.

STATEMENT OF ACCOUNTS PAYABLE
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Vendor Name	Amount
Non-related parties	
SRAM Corporation, Taiwan	$ 746,206
New Score Investment Ltd.	209,016
Others (Note)	3,189,717
	$ 4,144,939

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, 2019
(In Thousands of New Taiwan Dollars)

Item	Shipment	Amount
Bikes	About 819 thousand units	$ 24,097,991
Frames		362,304
Rims		335,657
Other parts		217,109
Gross sales		25,013,061
Less: Sales returns		(41)
Sales discounts and allowances		(8,810)
Net sales		$ 25,004,210

MERIDA INDUSTRY CO., LTD.

STATEMENT OF COST OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Amount
Raw material and supplies, beginning of year	$ 879,531
Add: Raw material and supplies purchased	20,654,362
Less: Sale of raw material and supplies	(11,961)
Raw material and supplies, end of year	(613,783)
Loss on raw material and supplies	(113)
Raw material and supplies scrapped	(11,875)
Other	(88,669)
Raw material and supplies used	20,807,492
Direct labor	860,853
Manufacturing expenses	573,312
Manufacturing cost	22,241,657
Add: Work in process, beginning of year	513,353
Less: Work in process, end of year	(418,540)
Sale of work in process	(894,059)
Work in process scrapped	(2,602)
Cost of finished goods	21,439,809
Add: Finished goods, beginning of year	249,120
Less: Finished goods, end of year	(364,454)
Transferred to other expenses	(5,187)
Cost of goods sold	21,319,288
Sales of raw material and supplies	11,961
Sale of work in process	894,059
Scrapped and loss on inventories	14,590
Revenue from sale of scraps	(5,432)
Reversal of write-downs of inventories	(3,300)
Cost of goods sold	$ 22,231,166

MERIDA INDUSTRY CO., LTD.

STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Selling and Marketing Expenses	General and Administrative Expenses	Total
Advertisement	$ 290,866	$ -	$ 290,866
Payroll and annual bonus	111,218	100,464	211,682
Remuneration of directors and supervisors	-	90,271	90,271
Shipping expense	51,603	-	51,603
Insurance expense	28,955	4,328	33,283
Depreciation expense	10,606	5,560	16,166
Export expense	15,852	-	15,852
Professional service fees	792	11,076	11,868
Others	86,467	26,195	112,662
Total	$ 596,359	$ 237,894	$ 834,253