

**ASSOCIATED INDUSTRIES CHINA, INC.  
AND SUBSIDIARIES  
Consolidated Financial Statements  
December 31, 2013 and 2012  
(With Independent Auditors' Report Thereon)**



安侯建業聯合會計師事務所

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## Independent Auditors' Report

To the Board of Directors  
Associated Industries China, Inc.

We have audited the accompanying consolidated balance sheets of Associated Industries China, Inc. and its subsidiaries as of December 31, 2013, and December 31 and January 1, 2012, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries, which reflect the assets amounting to NT\$23,537 thousand, NT\$29,885 thousand and NT\$18,243 thousand, constituting 2.57%, 2.69% and 1.79% of the consolidated totals as of December 31, 2013, and December 31 and January 1, 2012, respectively; and the total revenues amounting to NT\$87,900 thousand and NT\$108,708 thousand, constituting 14.06% and 16.96% of the consolidated totals for 2013 and 2012, respectively. The financial statements of these subsidiaries were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the generally accepted auditing standards and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the aforementioned reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Associated Industries China, Inc. and subsidiaries as of December 31, 2013, and December 31 and January 1, 2012, and the results of their consolidated operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuer, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission R.O.C.



Associated Industries China, Inc. has prepared the annual parent company only financial reports as of and for the years ended December 31, 2013 and 2012, on which we have issued modified unqualified opinion.

A handwritten signature in black ink, appearing to read 'KPMG', written in a cursive style.

March 18, 2014

The accompanying consolidated financial statements are intended only to present the consolidated financial position, consolidated results of operations, and consolidated cash flows in accordance with the International Financial Reporting Standards, International Accounting Standards and interpretations endorsed by the Financial Supervisory Commissions in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language versions of the auditors' report and consolidated financial statements, the Chinese version shall prevail.

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013, and December 31 and January 1, 2012  
(expressed in thousands of New Taiwan dollars)

	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents (note 6(a))	\$ 487,711	53	837,643	76	86,887	9
Current financial assets at fair value through profit or loss (note 6(b))	69	-	-	-	3,259	7
Notes and accounts receivable, net (note 6(c))	85,831	9	62,447	6	72,845	7
Other receivables, net (notes 6(c))	407	-	1,118	-	115,012	11
Inventories, net (notes 6(d))	186,815	21	158,636	14	172,243	17
Prepayments	16,068	2	12,529	1	14,191	2
Other current assets (note 8)	2,552	-	582	-	346	-
	<u>779,453</u>	<u>85</u>	<u>1,072,955</u>	<u>97</u>	<u>464,783</u>	<u>46</u>
<b>Non-current assets:</b>						
Property, plant and equipment (note 6(e) and 8)	125,061	14	24,169	2	41,464	4
Investment property, net (note 6(f) and 8)	-	-	-	-	449,541	44
Intangible assets	3,641	-	7,589	1	2,474	-
Deferred tax assets (note 6(j))	543	-	696	-	45,086	4
Other non-current assets	6,454	1	6,404	-	17,202	2
	<u>135,699</u>	<u>15</u>	<u>38,858</u>	<u>3</u>	<u>555,767</u>	<u>54</u>
<b>Total assets</b>	<b>\$ 915,152</b>	<b>100</b>	<b>1,111,813</b>	<b>100</b>	<b>1,020,550</b>	<b>100</b>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Short-term borrowings (note 6(g))	\$ -	-	-	-	166,951	16
Notes and accounts payable	90,299	10	83,005	7	86,428	8
Other payables	78,550	9	100,758	9	171,921	17
Current provisions (note 6(h))	6,214	1	4,155	1	6,323	1
Other current liabilities	4,943	-	2,574	-	1,989	-
	<u>180,006</u>	<u>20</u>	<u>190,492</u>	<u>17</u>	<u>433,612</u>	<u>42</u>
<b>Non-current liabilities:</b>						
Deferred tax liabilities (note 6(j))	-	-	187	-	124,583	12
Other non-current liabilities	35	-	71	-	4,871	1
	<u>35</u>	<u>-</u>	<u>258</u>	<u>-</u>	<u>129,454</u>	<u>13</u>
	<u>180,041</u>	<u>20</u>	<u>190,750</u>	<u>17</u>	<u>563,066</u>	<u>55</u>
<b>Total liabilities</b>						
<b>Equity: (note 6(k))</b>						
Ordinary shares	499,720	55	460,874	41	460,874	45
Capital surplus	20,986	2	-	-	-	-
Retained earnings:						
Legal reserve	51,433	6	709	-	709	-
Special reserve	47,763	5	-	-	-	-
Unappropriated earnings	160,235	17	507,243	46	33,390	3
	<u>259,413</u>	<u>28</u>	<u>507,952</u>	<u>46</u>	<u>34,099</u>	<u>3</u>
Exchange differences on translation of foreign financial statements	(45,026)	(5)	(47,763)	(4)	(37,489)	(3)
<b>Total equity</b>	<b>735,111</b>	<b>80</b>	<b>921,063</b>	<b>83</b>	<b>457,484</b>	<b>45</b>
<b>Commitments and contingencies (note 9)</b>						
<b>Total liabilities and equity</b>	<b>\$ 915,152</b>	<b>100</b>	<b>1,111,813</b>	<b>100</b>	<b>1,020,550</b>	<b>100</b>

See accompanying notes to consolidated financial statements.

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2013 and 2012**  
 (expressed in thousands of New Taiwan dollars, except earnings per share)

	2013		2012	
	Amount	%	Amount	%
<b>Operating revenue</b>				
Sales revenue	\$ 642,690	103	642,446	100
Less : Sales returns and allowances	17,612	3	17,959	3
Rental revenue (note (i))	-	-	16,429	3
	625,078	100	640,916	100
<b>Cost of sales (notes 6(d))</b>	462,411	74	426,727	67
<b>Gross profit</b>	162,667	26	214,189	33
<b>Operating expenses (notes 12) :</b>				
Selling expenses	105,911	17	130,773	20
Administrative expenses	81,208	13	113,496	18
Research and development expenses	7,872	1	5,493	1
	194,991	31	249,762	39
<b>Net operating loss</b>	(32,324)	(5)	(35,573)	(6)
<b>Non-operating income and expenses:</b>				
Interest income	5,653	1	1,487	-
Other income	3,585	1	523	-
Gain on disposals of property, plant and equipment (notes 6(e) and 6(f))	11,123	2	570,854	89
Foreign exchange gains (losses), net	14,575	2	(12,115)	(2)
Gains on financial assets at fair value through profit or loss	679	-	(783)	-
Interest expense	(8)	-	(5,027)	-
Miscellaneous disbursements	(88)	-	(632)	-
Impairment loss	-	-	(11,334)	(2)
	35,519	6	542,973	85
<b>Profit before tax</b>	3,195	1	507,400	79
<b>Less : tax expense (note 6(j))</b>	21,279	3	33,547	5
<b>Profit (loss)</b>	(18,084)	(2)	473,853	74
<b>Other comprehensive income (loss):</b>				
Other comprehensive income, before tax, exchange differences on translation	2,737	-	(1,896)	-
Less: income tax relating to components of other comprehensive income	-	-	8,378	1
Other comprehensive income (loss), net	2,737	-	(10,274)	(1)
<b>The comprehensive income (loss)</b>	\$ (15,347)	(2)	463,579	73
<b>Earnings (loss) per share (note 6(l)):</b>				
<b>Basic earnings (loss) per share</b>	\$ (0.37)		9.79	
<b>Diluted earnings per share</b>			9.38	

See accompanying notes to consolidated financial statements.

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Consolidated statements of changes in equity**

**For the years ended December 31, 2013 and 2012**  
(expressed in thousands of New Taiwan dollars)

	Ordinary shares	Capital surplus	Legal reserve	Retained earnings			Exchange differences on translation of foreign financial statements	Total equity
				Special reserve	Unappropriated earnings			
<b>Balance on January 1, 2012</b>	\$ 460,874	-	709	-	33,390	(37,489)	457,484	
Profit for the year ended December 31, 2012	-	-	-	-	473,853	-	473,853	
Other comprehensive income for the year ended December 31, 2012	-	-	-	-	-	(10,274)	(10,274)	
Comprehensive income for the year ended December 31, 2012	-	-	-	-	473,853	(10,274)	463,579	
<b>Balance on December 31, 2012</b>	460,874	-	709	-	507,243	(47,763)	921,063	
Appropriation and distribution of retained earnings (note):								
Legal reserve appropriated	-	-	50,724	-	(50,724)	-	-	
Special reserve appropriated	-	-	-	47,763	(47,763)	-	-	
Stock and Cash dividends	23,044	-	-	-	(230,437)	-	(207,393)	
Employee bonuses	15,802	20,986	-	-	-	-	36,788	
	38,846	20,986	50,724	47,763	(328,924)	-	(170,605)	
Loss for the year ended December 31, 2013	-	-	-	-	(18,084)	-	(18,084)	
Other comprehensive income for the year ended December 31, 2013	-	-	-	-	-	2,737	2,737	
Comprehensive income for the year ended December 31, 2013	-	-	-	-	(18,084)	2,737	(15,347)	
<b>Balance on December 31, 2013</b>	\$ 499,720	20,986	51,433	47,763	160,235	(45,026)	735,111	

Note: Directors' and supervisors remuneration amounting to \$8,175 and employee bonuses amounting to \$40,876 were recognized in the 2012 statement of comprehensive income.

See accompanying notes to consolidated financial statements.

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Consolidated statements of cash flows**

**For the years ended December 31, 2013 and 2012**  
**(expressed in thousands of New Taiwan dollars)**

	<u>2013</u>	<u>2012</u>
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 3,195	507,400
<b>Adjustments:</b>		
Adjusting to reconcile profit		
Depreciation expense	6,097	7,155
Amortization expense	9,330	4,154
Provision for bad debt expense	23	19
Interest expense	8	5,027
Interest income	(5,653)	(1,487)
Gain on disposal of property, plan and equipment	(11,123)	(570,854)
Other	3	6,106
	<u>(1,315)</u>	<u>(549,880)</u>
<b>Changes in operating assets and liabilities:</b>		
Changes in financial assets at fair value through profit or loss	(69)	3,259
Decrease (increase) in notes and accounts receivable	(23,407)	10,379
Decrease (increase) in inventories	(28,179)	13,607
Decrease (increase) in prepayment	(3,293)	1,734
Decrease in other current assets	(1,840)	(236)
Increase in other receivables	621	114,385
Increase in other operating assets	218	11,416
	<u>(55,949)</u>	<u>154,544</u>
<b>Changes in operating liabilities:</b>		
Increase (decrease) in notes and accounts payable	7,294	(3,423)
Decrease in other payable	(878)	(71,005)
Increase (decrease) in provisions	2,059	(2,168)
Increase in other operating liabilities	2,369	585
	<u>10,844</u>	<u>(76,011)</u>
<b>Total changes in operating assets and liabilities</b>	<u>(45,105)</u>	<u>78,533</u>
<b>Total adjustments</b>	<u>(46,420)</u>	<u>(471,347)</u>
Cash flows from (used in) operations	(43,225)	36,053
Interest received	5,743	996
Interest paid	(8)	(5,185)
Income taxes paid	(6,067)	(122,003)
<b>Net Cash flows used in operating activities</b>	<u>(43,557)</u>	<u>(90,139)</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of property, plant and equipment	(124,025)	(2,837)
Proceeds from disposal of property, plant and equipment (excluding related costs \$1,411 and 8,485, respectively)	28,200	1,020,395
Increase in refundable deposits	(268)	(618)
Acquisition of intangible assets	(5,382)	(2,530)
Other investing activities	(130)	-
<b>Net cash flows from (used in) investing activities</b>	<u>(101,605)</u>	<u>1,014,410</u>
<b>Cash flows from (used in) financing activities:</b>		
Decrease in short-term loans	-	(166,951)
Decrease in guarantee deposits	(36)	(4,800)
Cash dividends paid	(207,393)	-
<b>Net cash flows used in financing activities</b>	<u>(207,429)</u>	<u>(171,751)</u>
Effect of exchange rate changes on cash and cash equivalents	2,659	(1,764)
Net decrease (increase) in cash and cash equivalents	(349,932)	750,756
Cash and cash equivalents at beginning of period	837,643	86,887
Cash and cash equivalents at end of period	\$ <u>487,711</u>	<u>837,643</u>

See accompanying notes to consolidated financial statements.

# ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2013 and 2012

(expressed in thousands of New Taiwan dollars unless otherwise specified,  
with US dollars and Euros expressed in thousands)

### (1) Overview

Associated Industries China, Inc. (the “Company”) was incorporated in May 18, 1978 as a company limited by shares, and registered under the Ministry of Economic Affairs, in the Republic of China. The Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The major business activities of the Group are the research, development and sale of LCD monitors, related components and real estate rental business.

### (2) Approval date and procedures of the consolidated financial statement

These consolidated financial statements were authorized for issuance by the board of directors on March 18, 2014.

### (3) New standards and interpretations not yet adopted

(a) New standards and interpretations endorsed by the Financial Supervisory Commissions R.O.C. (“FSC”) but not yet in effect.

The International Accounting Standards Board (“IASB”) issued the International Financial Reporting Standard 9, “*Financial Instruments*” (“IFRS 9”), which should take effect on January 1, 2013 (the IASB postponed the effective date to January 1, 2015 in December 2011, but soon in November 2013, IASB announced to abandon the effective date to ensure financial statement preparer have enough time adopting the new standards). This standard has been endorsed by the FSC; however, the effective date has not been announced. In accordance with FSC rules, early adoption is not permitted, and companies shall follow the guidance in the 2009 version of the International Accounting Standard 39 *Financial Instruments* (“IAS 39”). Upon the adoption of this new standard, it is expected there will be significant impacts on the classification and measurement of financial instruments in the consolidated financial statements.

(b) New standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB that may have an impact on the consolidated financial statements but not yet endorsed by the FSC:

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

<u>Issue date</u>	<u>New standards and amendments</u>	<u>Description</u>	<u>Effective date per IASB</u>
May 12, 2011	· IFRS 10 Consolidated Financial Statements	· On May 12, 2011, the IASB issued a series of standards and amendments related to consolidation, joint arrangements, and investments.	January 1, 2013
June 28, 2012	· IFRS 12 Disclosure of Interests in Other Entities · Amended IAS 27 Separate Financial Statements · Amended IAS 28 Investments in Associates and Joint Ventures	· The new standards provide a single model for determining whether an entity has control over an investee (including special purpose entities), other than the consolidation process, in which the original guidance and method applies. · On June 28, 2012, amendments were issued clarifying the guidance over the transition period. · The Group believes that the adoption of standards above will not have a significant effect on financial statements.	
May 12, 2011	· IFRS 13 Fair Value Measurement	· Replaces fair value measurement guidance in other standards, and consolidates as one single guidance. The Company is in the process of assessing the impact on the consolidated financial statements at the time of adoption. The amendments will increase the information of fair value disclosures.	January 1, 2013
June 16, 2011	· Amended IAS 1 Presentation of Financial Statements	· Items presented in other comprehensive income shall be based on whether they are potentially reclassifiable to profit or loss subsequently. The Group expects the adoption of the standards above will change the way of presentation of other comprehensive income in the consolidated statements of comprehensive income.	July 1, 2012

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(4) Significant Accounting Policies**

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically indicated, the following accounting policies were applied consistently throughout the presented periods in the financial statements, and the consolidated balance sheet as of January 1, 2012 prepared for the conversion to International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC ("IFRSs endorsed by the FSC").

The consolidated financial statements have been translated into English. The translated information is consistent with the Chinese language consolidated financial statements from which it is derived.

**(a) Statement of compliance**

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as the Regulations) and IFRSs endorsed by the FSC.

These are the Group's first IFRS consolidated annual financial statements for part of the period covered by the first IFRS (endorsed by the FSC) annual financial statements, and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Group is provided in note 14.

**(b) Basis of preparation****1. Basis of measurement**

Except for Financial instruments (including derivative financial instruments) measured at fair value through profit or loss are measured at fair value, the consolidated annual financial statements have been prepared on the historical cost basis.

**2. Functional and presentation currency**

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The Group consolidated financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(c) Basis of consolidation

1. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

2. List of subsidiaries in the consolidated financial statements.

Name of investor	Name of subsidiary	Principal activity	Shareholding			Description
			December 31, 2013	December 31, 2012	January 1, 2012	
The Company	Global Maritime Finance Co., Ltd (GMF)	Investment	100%	100%	100%	
"	AG Neovo Technology, BV. (AG Neovo B.V)	Sale of LCD monitors	100%	100%	100%	
"	AG Neovo Investment Co., Ltd (AG Neovo Investment)	Investment	100%	100%	-	Note 1
AG Neovo Investment	AG Neovo Technology (Shanghai) Co., Ltd (AG Neovo Shanghai)	Sale of LCD monitors	100%	100%	-	Note 2
GMF	AG Neovo International Ltd. (AG Neovo International)	Investment	100%	100%	100%	
GMF	AG Neovo Technology Corp. (AG Neovo USA)	Sale of LCD monitors	100%	100%	100%	

Note 1: The company was incorporated in January 2012.

Note 2: The company was incorporated in June 2012.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (d) Foreign currencies

## 1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation:

- available-for-sale equity investment;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

## 2. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(e) Classification of current and non-current assets and liabilities**

An entity shall classify an asset as current when:

1. It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
2. It holds the asset primarily for the purpose of trading;
3. It expects to realize the asset within twelve months after the reporting period; or
4. The asset is cash and cash equivalent (as defined in IAS 7, "Statements of Cash Flows") unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

An entity shall classify a liability as current when:

1. It expects to settle the liability in its normal operating cycle;
2. It holds the liability primarily for the purpose of trading;
3. The liability is due to be settled within twelve months after the reporting period; or
4. It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

**(f) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

The time deposits with maturities within one year or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used for the purpose of meeting short-term commitments, and therefore are reclassified as cash equivalents.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(g) Financial Instruments**

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

**1. Financial assets**

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables.

**(i) Financial assets at fair value through profit or loss**

A financial asset is classified in this category if it is acquired principally for the purpose of selling or repurchasing in the short term. This type of financial asset is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

**(ii) Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables, other receivables and refundable deposits. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expenses.

**(iii) Impairment of financial assets**

A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables are included in operating expense, others are included in non-operating income and expense.

**(iv) Derecognition of financial assets**

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the group transfers substantially all the risks and rewards of ownership of the financial assets.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss, and it is included in non-operating income and expenses.

**2. Financial liabilities****(i) Financial liabilities at fair value through profit or loss**

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income or expenses.

**(ii) Other financial liabilities**

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method other than insignificant interest on short-term loans and payables. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income or expense.

**(iii) Derecognition of financial liabilities**

The Group derecognizes a financial liability when its contractual obligation expires or has been discharged or cancelled. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

**(iv) Offsetting of financial assets and liabilities**

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(Continued)



**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 3. Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, and are included in non-operating income and expenses. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

## (h) Inventories

The cost of inventories is those necessary expenditures incurred in bringing each item of inventory to its useable condition and location. The cost of inventories is based on the weighted-average-cost principle. Inventories are stated at the lower of total cost or total net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. Inventories are measured at the lower of cost or net realizable value item by item.

## (i) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are reclassified as held for sale. And it is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale. The sale is highly probable and shall take place within one year. Before classification as held for sale, the assets, or components of a disposal group are re-measured in accordance with the Company accounting policies. Thereafter, generally the assets or disposal group are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment loss on a disposal group will first be allocated to goodwill, and then the remaining assets and liabilities will be apportioned on a pro rata basis, except that no loss is allocated assets not in the scope of IAS 36 – Impairments, such assets will continue to be measured in accordance with the Company accounting policies.

Impairment losses on assets initially classified as held for sale and any subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

When the assets classified as held for sale are intangible assets or property, plant and equipment, they are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(j) Investment property**

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently. The depreciation is computed along with the depreciable amount. The method, the useful life and the residual amount are the same with those of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property, plant and equipment, the carrying amount at the date of reclassification becomes its cost for subsequent accounting.

**(k) Property, plant and equipment****1. Recognition and measurement**

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. Cost also includes foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expense.

**2. Reclassification to investment property**

The property is reclassified to investment property at its carrying amount when the use of the property changes from internal use to investment use.

**3. Subsequent cost**

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 4. Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life, and therefore, it is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- (i) Buildings: 50~60 years.
- (ii) Improvement to buildings: 6~20 years.
- (iii) Machinery and research equipment: 2~10 years.
- (iv) Molding equipment: 2 years.
- (v) Other equipment: 2~10 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

## (l) Lease

## 1. The Group as lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 2. The Group as lessee

Operating leases are not recognized in the Group's balance sheet.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense on a straight-line basis, over the term of the lease.

Contingent rents are recognized as expense in the period when the lease adjustments are confirmed.

## (m) Intangible assets

## 1. Goodwill

## (i) Initial recognition

Goodwill arising from acquisition of subsidiaries is included in intangible assets.

## (ii) Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses.

Goodwill related to an associate or a joint venture is included in the carrying amount of the investment, and not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or joint venture.

## 2. Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

## 3. Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

## 4. Amortization

The amortizable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives of computer software is 3~5 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(n) Impairment – non-derivative financial assets

Non-derivative financial assets except for inventories, deferred tax assets and non-current assets classified as held for sale are assessed at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

(o) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(p) Revenue**

## 1. Sales of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

## 2. Rental revenue

Rental income from investment property is recognized in income on a straight-line basis over the lease term. Incentives granted to the lessee to enter in to the operating lease are considered as part of rental income which are spread over the lease term on a straight-line basis so that the rental income received is reduced accordingly.

Revenue from the lease of rental property is recognized in operating revenue.

**(q) Employee benefits**

## 1. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

## 2. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(r) Income taxes**

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

1. Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
2. Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
3. Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and
2. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
  - (i) levied by the same taxing authority; or
  - (ii) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

The 10% surtax on unappropriated earnings is recorded as current tax expense in the following year after the resolution to appropriate retained earnings is approved in a stockholder's meeting.

(s) Business combination

Upon conversion to IFRSs endorsed by the FSC, the Group can choose to restate all business combinations that occurred after January 1, 2012 (inclusive). For those acquisitions that occurred prior to January 1, 2012, the amount of goodwill is recognized in accordance to the Regulations Governing the Preparation of Financial Reports issued by the FSC on January 10, 2009 and the financial accounting standards and interpretation issued by the Accounting Research and Development Foundation.

(t) Earnings per share

The Group discloses the basic and diluted earnings (loss) per share attributable to ordinary equity holders of the Company. The calculation of basic earnings (loss) per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings (loss) per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee stock options and employee bonuses not yet resolved by the shareholders.

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**(5) Major sources of significant accounting assumptions, judgments, and estimation uncertainty**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting assumptions, estimates and judgments. The management recognizes the changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

There are no critical judgments in applying accounting policies that have significant effect on amounts recognized in the consolidated financial statements.

There are no information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

**(6) Explanation of significant accounts****(a) Cash and cash Equivalents**

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Petty cash, checking accounts and demand deposits	\$ 115,128	252,801	85,879
Time deposits	342,561	584,842	1,008
Bonds sold under repurchase agreement	<u>30,022</u>	<u>-</u>	<u>-</u>
	<u>\$ 487,711</u>	<u>837,643</u>	<u>86,887</u>

Please refer to note 6(m) for the exchange rate risk, the interest rate risk and the fair value sensitivity analysis of the financial assets of the Group.

**(b) Financial assets at fair value through profit or loss**

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
<b>Financial assets at fair value through profit or loss:</b>			
Financial assets held for trading:			
Derivative instruments not used for hedging	\$ <u>69</u>	<u>-</u>	<u>3,259</u>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Group uses derivative financial instruments to hedge certain foreign exchange risk the Group is exposed to arising from its operating activities. The Group held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2013, and December 31 and January 1, 2012:

		<u>December 31, 2013</u>		
		<u>Contract amount</u>		<u>Maturity date</u>
		<u>(in thousands)</u>	<u>Currency</u>	
<b>Financial assets:</b>				
Forward foreign exchange contracts sold				
	EUR	<u>150</u>	EUR to USD	2014.2.14
		<u>January 1, 2012</u>		
		<u>Contract amount</u>		<u>Maturity date</u>
		<u>(in thousands)</u>	<u>Currency</u>	
<b>Financial assets:</b>				
Forward foreign exchange contracts sold				
	EUR	<u>1,200</u>	EUR to USD	2012.1.9~2012.3.7

## (c) Notes and accounts receivable and other receivables

	<u>December 31,</u>	<u>December 31,</u>	<u>January 1,</u>
	<u>2013</u>	<u>2012</u>	<u>2012</u>
Notes receivable	\$ 329	715	1,482
Accounts receivable	87,441	64,348	73,135
Other receivables	407	1,118	115,012
	<u>88,177</u>	<u>66,181</u>	<u>189,629</u>
Less: allowance for impairment loss	(88)	(65)	(46)
Allowance for sales discounts	(1,851)	(2,551)	(1,726)
	<u>\$ 86,238</u>	<u>63,565</u>	<u>187,857</u>
Notes and account receivable, net	<u>\$ 85,831</u>	<u>62,447</u>	<u>72,845</u>
Other receivables	<u>\$ 407</u>	<u>1,118</u>	<u>115,012</u>

The ageing analysis of notes receivable and accounts receivable and other receivables were as follows:

	<u>December 31,</u>	<u>December 31,</u>	<u>January 1,</u>
	<u>2013</u>	<u>2012</u>	<u>2012</u>
Not past due	\$ 60,516	50,086	175,883
Past due 1 to 30 days	24,609	15,961	13,746
Past due 31 to 90 days	3,052	134	-
	<u>\$ 88,177</u>	<u>66,181</u>	<u>189,629</u>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The change in the allowance for receivables and other receivables for the years ended December 31, 2013 and 2012 were as follows:

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance at January 1, 2013	\$ -	65	65
Impairment loss recognized	<u>-</u>	<u>23</u>	<u>23</u>
Balance at December 31, 2013	<u>\$ -</u>	<u>88</u>	<u>88</u>
	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance at January 1, 2012	\$ -	46	46
Impairment loss recognized	<u>-</u>	<u>19</u>	<u>19</u>
Balance at December 31, 2012	<u>\$ -</u>	<u>65</u>	<u>65</u>

The Group believes that the unimpaired amounts that are neither past due are still collectible based on historic payment behavior and extensive analysis of customer credit risk, including the underlying customers' credit ratings, when available.

## (d) Inventories

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Merchandise inventory	<u>\$ 186,815</u>	<u>158,636</u>	<u>172,243</u>

The details of cost of sales for the years ended December 31, 2013, and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Cost of goods sold and expenses	\$ 461,653	427,126
Inventory valuation loss and obsolescence (recovery on inventory valuation)	<u>758</u>	<u>(399)</u>
	<u>\$ 462,411</u>	<u>426,727</u>

As of December 31, 2013, and December 31 and January 1, 2012, the Group did not provide any inventories as collaterals for its loans.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (e) Property, plant and equipment

1. The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2013 and 2012 were as follows:

	<u>Land</u>	<u>Buildings and building improvement</u>	<u>Machinery and R&amp;D equipment</u>	<u>Molding equipment and other equipment</u>	<u>Total</u>
<b>Cost:</b>					
Balance on January 1, 2013	\$ 11,976	9,256	1,046	22,931	45,209
Additions	95,104	28,192	450	279	124,025
Disposal and derecognitions	(11,976)	(9,256)	(706)	(658)	(22,596)
Effect of movements in exchange rates	-	-	-	772	772
Balance on December 31, 2013	<u>\$ 95,104</u>	<u>28,192</u>	<u>790</u>	<u>23,324</u>	<u>147,410</u>
Balance on January 1, 2012	\$ 11,976	9,256	706	126,822	148,760
Additions	-	-	340	2,497	2,837
Reclassification to intangible assets	-	-	-	(7,132)	(7,132)
Disposal and derecognitions	-	-	-	(98,939)	(98,939)
Effect of movements in exchange rates	-	-	-	(317)	(317)
Balance on December 31, 2012	<u>\$ 11,976</u>	<u>9,256</u>	<u>1,046</u>	<u>22,931</u>	<u>45,209</u>
<b>Depreciation:</b>					
Balance on January 1, 2013	\$ -	3,853	706	16,481	21,040
Depreciation for the year	-	923	63	5,111	6,097
Disposals and derecognitions	-	(4,166)	(706)	(644)	(5,516)
Effect of movements in exchange rates	-	-	-	728	728
Balance on December 31, 2013	<u>\$ -</u>	<u>610</u>	<u>63</u>	<u>21,676</u>	<u>22,349</u>
Balance on January 1, 2012	\$ -	3,458	636	103,202	107,296
Depreciation for the year	-	395	70	6,690	7,155
Reclassification to intangible assets	-	-	-	(394)	(394)
Disposal and derecognitions	-	-	-	(92,833)	(92,833)
Effect of movements in exchange rates	-	-	-	(184)	(184)
Balance on December 31, 2012	<u>\$ -</u>	<u>3,853</u>	<u>706</u>	<u>16,481</u>	<u>21,040</u>
<b>Carrying amounts:</b>					
Balance on December 31, 2013	<u>\$ 95,104</u>	<u>27,582</u>	<u>727</u>	<u>1,648</u>	<u>125,061</u>
Balance on January 1, 2012	<u>\$ 11,976</u>	<u>5,798</u>	<u>70</u>	<u>23,620</u>	<u>41,464</u>
Balance on December 31, 2012	<u>\$ 11,976</u>	<u>5,403</u>	<u>340</u>	<u>6,450</u>	<u>24,169</u>

The Company contracted with non-related parties to buy land and buildings to be used as office for \$118,852 in January 2013. The transferee process for the ownership was completed.

In order to activate assets and create benefits for the shareholders, The Company entered into an agreement to sell land and buildings in Chungli City on October 25, 2013.

The proceeds amounted to \$29,600 and the disposal gain amounted to \$11,123. As of December 31, 2012, the related registration procedure of transfer of ownership was completed and the above receivable was fully collected.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of December 31, 2013, and December 31 and January 1, 2012, the property, plant and equipment has been pledged as collateral or restricted. Please refer to note 8.

## (f) Investments property

	<u>Land</u>	<u>Buildings and construction</u>	<u>Total</u>
<b>Cost:</b>			
Balance on January 1, 2013 (Equivalent to Balance on December 31, 2013)	\$ -	-	-
Balance on January 1, 2012	\$ 449,541	51,395	500,936
Disposal	(449,541)	(51,395)	(500,936)
Balance on December 31, 2012	\$ -	-	-
<b>Accumulated depreciation:</b>			
Balance on January 1, 2013 (Equivalent to Balance on December 31, 2013)	\$ -	-	-
Balance on January 1, 2012	\$ -	51,395	51,395
Disposal	-	(51,395)	(51,395)
Balance on December 31, 2012	\$ -	-	-
<b>Carrying amount:</b>			
Balance on December 31, 2013	\$ -	-	-
Balance on January 1, 2012	\$ <u>449,541</u>	-	<u>449,541</u>
Balance on December 31, 2012	\$ -	-	-
<b>Fair value:</b>			
Balance on January 1, 2012			\$ <u>1,009,135</u>

Investment property comprises of commercial property that is leased to third parties.

Each of the leases contains an initial non-cancellable lease period. Subsequent renewals are negotiated with the lessee. No contingent rents are charged.

The Company's board of directors decided to sell the investment property to Chungli Bus Traffic on September 17, 2012. The proceeds amounted to \$1,028,880 and the disposal gain amounted to \$570,854. As of December 31, 2012, the related registration procedure of transfer of ownership was completed, and the above receivable was fully collected after the Company transferred its ownership of the land and buildings to Chungli Bus Traffic in accordance with the sales contract. The existing lease contract would be transferred to Chungli Bus Traffic. The contract between the Company and the original lessee was due on October 26, 2012.

The fair value of the investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of January 1, 2012, the investment property has been pledged as collateral or restricted. Please refer to note 8.

## (g) Short-term borrowings

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Secured bank loans	\$ -	-	137,000
Short-term notes and bills payable, net	-	-	29,951
Total	<u>\$ -</u>	<u>-</u>	<u>166,951</u>
Unused short-term credit lines	<u>\$ 162,000</u>	<u>121,040</u>	<u>355,275</u>
Annual interest rates	<u>-</u>	<u>2%</u>	<u>2%</u>

Refer to note 6(m) for the interest risk, foreign currency exchange rate risk, and liquidity risk information of the Group.

The Group provided property, plant and equipment and investments property as collaterals for its short-term borrowings. Please refer to note 8.

## (h) Provisions

	<u>Warranty</u>
Balance on January 1, 2013	\$ 4,155
Provisions made during the period	6,800
Provisions used during the period	<u>(4,741)</u>
Balance on December 31, 2013	<u>\$ 6,214</u>
Balance on January 1, 2012	\$ 6,323
Provisions made during the period	4,547
Provisions used during the period	<u>(6,715)</u>
Balance on December 31, 2012	<u>\$ 4,155</u>

Provisions relate to sales of products, and are assessed based on historical experience.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (i) Operating lease

## 1. The Group as lessee

Non-cancellable operating lease rentals that were payable were as follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Less than one year	\$ 6,173	7,333	8,152
Between one and five years	<u>8,227</u>	<u>12,639</u>	<u>13,272</u>
	<u>\$ 14,400</u>	<u>19,972</u>	<u>21,424</u>

The Group leased several offices, office equipment and transportation equipment under operating leases with lease terms of 1 to 5 years and had an option to renew the leases.

The office lease contract was made along with the lease contracts of the land and buildings by the lessee. Since the land ownership was not transferred, the rental fee will be based upon the ongoing market price. The Group does not participate in the residual value of the land and buildings. As a result, it was determined that all the risks and rewards of the land and buildings are with the lessor. The Group determined that the lease of the land and buildings classified as are operating leases.

For the years ended December 31, 2013 and 2012, expenses recognized in profit or loss with respect to operating leases amounted to \$13,647 and \$16,508, respectively.

## 2. The Group as lessor

The Group leased out investment property under operating lease. Please refer to note 6(f). The future lease receivables under non-cancellable leases are as follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Less than one year	\$ -	-	19,884
Between two and five years	<u>-</u>	<u>-</u>	<u>19,776</u>
	<u>\$ -</u>	<u>-</u>	<u>39,660</u>

For the years ended December 31, 2012 the rental recognized in operating revenue amounted to \$16,429.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (j) Employee benefits

## Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

Other subsidiaries outside the ROC recognized the pension expenses and made the periodical payments under the defined contribution method.

The Company recognized pension costs under the defined contribution method amounting to \$3,094 and \$2,755 for the years ended December 31, 2013 and 2012, respectively. Payment was made to the Bureau of Labor Insurance.

## (k) Income taxes

## 1. Income tax expenses

- (i) The amount of income tax for the years ended December 31, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Current tax expense		
Current period	\$ 4,012	146
10% surtax on unappropriated earnings	16,024	-
Land value increment tax	<u>1,277</u>	<u>121,785</u>
	21,313	121,931
Deferred tax expense		
Origination and reversal of temporary differences	(34)	(121,512)
Change in unrecognized deductible temporary differences	-	26,930
Recognition of previously unrecognized tax losses	<u>-</u>	<u>6,198</u>
	<u>(34)</u>	<u>(88,384)</u>
Total Income tax expense	\$ <u><u>21,279</u></u>	<u><u>33,547</u></u>

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (ii) The amount of income tax recognized in other comprehensive income for 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Foreign currency translation differences of foreign operations	\$ <u>-</u>	<u>8,378</u>

- (iii) Reconciliation of income tax and profit before tax for 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Profit excluding income tax	\$ <u>3,195</u>	<u>507,400</u>
Income tax using the Company's domestic tax rate	543	86,258
Effect of tax rates in foreign jurisdiction	(795)	173
Land value increment tax	1,277	-
Tax-exempt income	(1,548)	(85,156)
Recognition of previously unrecognized tax losses	(1,717)	6,198
Deferred tax assets unrecognized in respect of the current tax losses	5,331	1,875
Recognition of previously unrecognized temporary differences	3,827	27,516
Under (over) provision in prior periods	(490)	(891)
10% surtax on unappropriated earnings	16,024	-
Other	(1,173)	(2,426)
	\$ <u>21,279</u>	<u>33,547</u>

2. Deferred tax assets and liabilities

- (i) Unrecognized deferred tax assets

- Deferred tax assets have not been recognized in respect of the following items:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Deductible temporary differences	\$ 86,872	83,045	55,529
Tax losses	268,197	293,111	321,842
Foreign currency translation differences of foreign operations	<u>7,654</u>	<u>8,120</u>	<u>6,373</u>
	\$ <u>362,723</u>	<u>384,276</u>	<u>383,744</u>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The company is able to control the timing of the reversal of the temporary differences related to the investments in subsidiaries on December 31, 2013 and 2012. The temporary differences arising from the investments in subsidiaries where there is a probability that such temporary differences will not reverse in the foreseeable future were not recognized as deferred tax assets.

The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against taxable income in the following ten years. The Company estimated tax losses which could be used to offset future taxable income as of December 31, 2013, were as follows:

<u>Year of loss</u>	<u>Unused tax credits</u>	<u>Expiry year</u>	<u>Remark</u>
2004	\$ 36,825	2014	(assessed)
2005	342,856	2015	(assessed)
2007	179,250	2017	(assessed)
2008	62,039	2018	(assessed)
2009	25,984	2019	(assessed)
2010	9,697	2020	(assessed)
2012	46,884	2022	(estimated)
	<u>\$ 703,535</u>		

According to the US Tax Act, the assessed loss carryforward of AG Neovo USA can be used to offset against federal and state taxable income in the following twenty years. As of December 31, 2013, AG Neovo USA had unused net operating loss of about US\$9,075 and US\$6,680 for federal and state income tax return purposes, respectively, which can be carried forward through 2030.

According to Dutch Tax Act, the assessed loss carryforward of AG Neovo B.V. can be used to offset against taxable income in the following ten years. As of December 31, 2013, AG Neovo B.V. had unused net operating loss of about EUR\$4,380, which can be carried forward through 2022.

The tax losses mentioned above could be used to offset future taxable income. Because of the uncertainty of future taxable income, the Group didn't recognize the deferred tax assets arising from the tax losses.

## (ii) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2013 and 2012 were as follows:

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<u>Defined benefit Plans</u>	<u>Provision for land value increment tax</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:				
Balance on January 1, 2013	\$ -	-	187	187
Recognized in (profit) or loss	<u>-</u>	<u>-</u>	<u>(187)</u>	<u>(187)</u>
Balance on December 31, 2013	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on January 1, 2012	-	124,583	-	124,583
Recognized in (profit) or loss	<u>-</u>	<u>(124,583)</u>	<u>187</u>	<u>(124,396)</u>
Balance on December 31, 2012	\$ <u>-</u>	<u>-</u>	<u>187</u>	<u>187</u>

	<u>Defined Benefit Plans</u>	<u>Foreign currency translation adjustment</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:				
Balance on January 1, 2013	\$ -	-	696	696
Recognized in profit or (loss)	<u>-</u>	<u>-</u>	<u>(153)</u>	<u>(153)</u>
Balance on December 31, 2013	\$ <u>-</u>	<u>-</u>	<u>543</u>	<u>543</u>
Balance on January 1, 2012	\$ -	8,378	36,708	45,086
Recognized in profit or (loss)	<u>-</u>	<u>-</u>	<u>(36,012)</u>	<u>(36,012)</u>
Recognized in other comprehensive income	<u>-</u>	<u>(8,378)</u>	<u>-</u>	<u>(8,378)</u>
Balance on December 31, 2012	\$ <u>-</u>	<u>-</u>	<u>696</u>	<u>696</u>

- The ROC tax authorities have examined the Company's income tax returns through 2011.
- Information related to the unappropriated earnings and tax deduction ratio was summarized below:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Unappropriated earnings of 1998 and after	\$ <u>160,235</u>	<u>507,243</u>	<u>33,390</u>
Balance of imputation credit account	\$ <u>2,921</u>	<u>8,282</u>	<u>8,282</u>

	<u>2013 (Estimated)</u>	<u>2012 (Actual)</u>
Creditable ratio for earnings distribution to ROC residents	\$ <u>11.47%</u>	<u>1.63%</u>

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The above stated information was prepared in accordance with the information letter No.10204562810 announced by the Ministry of Finance of R.O.C. on October 17, 2013.

5. However, the foreign investment loss of the Company filed for the year ended December 31, 2007 was different from the amounts assessed by the tax authorities. The difference in foreign investment loss amounted to \$657,470. The Company disagreed with the assessment and filed a formal tax appeal. The Company received the review result on February 10, 2012. The tax authorities corrected the foreign investment loss to \$272,001. The taxable loss of \$179,250 was assessed by the tax authorities for the year ended December 31, 2007. The Company disagreed with the corrected assessment and filed another formal tax appeal. The Company ceased filing appeals after the Ministry of Finance rejected the appeal. Thus, there was no effect on the consolidated financial statements.

(I) Capital and other equities

1. Ordinary shares

As of December 31, 2013, and December 31, and January 1, 2012, the authorized common stocks were all 2,000,000 with a par value of 10 New Taiwan dollars per share, and of which 49,972, 46,087 and 46,087 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

2. Capital surplus

In accordance with the ROC Company Act amended in 2012, realized capital reserves can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital reserves to be reclassified under share capital shall not exceed 10 percent of the actual share capital amount.

Based on the resolutions of the annual stockholders' meetings held on June 18, 2013, the Company increased its common stock by transferring employee bonuses amounting to \$36,788. The number of shares of employee bonuses is 1,580 thousand shares and increased capital surplus amounted to \$20,986.

3. Retained Earning

Based on the Company's articles of incorporation amended on June 12, 2012, 10% of annual net income after tax is to be set aside as a legal reserve, and then a special reserve is set aside or reversed in accordance with the laws or regulations; less than 2% of the unappropriated earnings, after deducting the legal reserve and the special reserve, is distributed as remuneration to the directors (part-time directors not included) and supervisors, and more than 10% as bonus to employees. The remaining balance and the accumulated unappropriated earnings of prior years, if any, should be distributed as dividends. The amount of dividends is

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

determined by the board of directors and approved by the stockholders at their annual meeting. Dividends are paid in cash and/or stock from retained earnings, and the amount of cash dividends cannot be less than 10% of total dividends. However, if the cash dividend per share is less than \$0.1 (dollars), a stock dividend will be paid instead.

(i) Legal reserve

In accordance with the Company Act as amended in January 2012, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to share capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

(ii) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualified for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(iii) Earnings distribution

The employee bonuses and directors' and supervisors' remuneration were recognized as operating expenses on a specific percentage of net income in the financial statement. For the years ended December 31, 2012, the Company recognized the employee bonuses of \$40,876, and the directors' and supervisors' remuneration of \$8,175, respectively.

Based on the resolution of the annual stockholders' meeting held on June 18, 2013, the Company declared a 4.5 New Taiwan dollar cash dividend per share, which amounted to \$207,393, and also increased its common stock by transferring the retained earnings and employee bonuses amounting to \$23,044 and \$36,788, respectively. The number of shares of employee bonuses is based on the closing price of the day before the shareholders' meeting with the consideration of the ex-rights and ex-dividend effects. The newly issued shares amounted to 1,580 thousand shares and total shares amounted to 3,885 thousand shares. The related registration procedure has been completed on September 14, 2013.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the year ended December 31, 2013, the Company had a current deficits, thus, no employee bonuses and directors' and supervisors' remuneration were recognized.

Based on the resolutions of the annual stockholders' meetings held on June 12, 2012, the Company offset the prior years' deficit, thus, no employee bonuses and directors' and supervisors' remuneration were distributed.

Based on the resolutions of the annual stockholders' meetings held on June 18, 2013, the appropriations of dividends, employee bonuses, and directors' and supervisors' remuneration from the distributable retained earnings of 2012 were as follows:

	<u>2012</u>	<u>2011</u>
Dividends distributed to common shareholders:		
Cash	\$ 207,393	-
Shares	<u>23,044</u>	<u>-</u>
	<u><u>230,437</u></u>	<u><u>-</u></u>
Employee bonuses -- cash	\$ 4,088	-
Employee bonuses-stock	36,788	-
Directors' and supervisors' remuneration	<u>8,175</u>	<u>-</u>
	<u><u>\$ 49,051</u></u>	<u><u>-</u></u>

There was no difference between the actual distribution and the estimation in the 2012 financial statements. The related information about earnings distribution can be accessed from the Market Observation Post System after the holding of these meetings.

## 4. Other Equity

	<b>Foreign exchange differences arising from <u>foreign operation</u></b>
<b>Balance on 1 January, 2013</b>	\$ (47,763)
Foreign exchange differences (after tax):	
The Group	\$ <u>2,737</u>
<b>Balance on 31 December, 2013</b>	\$ <u><u>(45,026)</u></u>
<b>Balance on 1 January, 2012</b>	\$ (37,489)
The Group	<u>(10,274)</u>
<b>Balance on 31 December 2012</b>	\$ <u><u>(47,763)</u></u>

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (m) Earnings per share

## 1. Basic earnings per share

Earnings per share for the years ended December 31, 2013 and 2012, was computed as follows:

	<u>2013</u>	<u>2012</u>
<b>Basic net income per share:</b>		
Net income	\$ <u>(18,084)</u>	<u>473,853</u>
Weighted-average number of shares outstanding (thousands)	<u>49,245</u>	<u>48,392</u>
Basic earnings per share (dollars)	\$ <u>(0.37)</u>	<u>9.79</u>
<b>Diluted earnings per share:</b>		
Weighted-average number of shares outstanding (thousands)		48,392
Effects of dilutive potential common stock:		
Effect of employee stock bonuses		<u>2,129</u>
Weighted-average number of shares outstanding (thousands)		<u>50,521</u>
Diluted earnings per share (dollars)		\$ <u>9.38</u>

## (n) Financial Instruments

## 1. Categories of financial instruments

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
<b>Financial assets</b>			
Cash and cash equivalents	\$ 487,711	837,643	86,887
Current financial assets at fair value through profit or loss	69	-	3,259
Notes and accounts receivable, net	85,831	62,447	72,845
Other receivables	407	1,118	115,012
Restricted cash in banks	133	3	3
Refundable deposits	<u>6,266</u>	<u>5,998</u>	<u>5,380</u>
Total	<u>\$ 580,417</u>	<u>907,209</u>	<u>283,386</u>

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
<b>Financial liabilities</b>			
Short-term borrowings	\$ -	-	166,951
Notes and accounts payable	90,299	83,005	86,428
Other payables	58,190	49,355	166,384
Guarantee deposits	<u>35</u>	<u>71</u>	<u>4,871</u>
Total	<u>\$ 148,524</u>	<u>132,431</u>	<u>424,634</u>

## 2. Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2013 and December 31 and January 1, 2012, the maximum amount exposed to credit risk amounted to \$580,417, \$907,209 and \$283,386, respectively.

## 3. Liquidity Risk

The following table shows the contractual maturities of financial liabilities, excluding estimated interest payments:

	<u>Carrying</u> <u>Amount</u>	<u>Contractual</u> <u>cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
<b>December 31, 2013</b>				
Non-derivative financial liabilities:				
Notes and accounts payable	\$ 90,299	(90,299)	(90,299)	-
Other payables	58,190	(58,190)	(58,190)	-
Guarantee deposits	<u>35</u>	<u>(35)</u>	<u>-</u>	<u>(35)</u>
	<u>\$ 148,524</u>	<u>(148,524)</u>	<u>(148,489)</u>	<u>(35)</u>
<b>December 31, 2012</b>				
Non-derivative financial liabilities:				
Notes and accounts payable	\$ 83,005	(83,005)	(83,005)	-
Other payables	49,355	(49,355)	(49,355)	-
Guarantee deposits	<u>71</u>	<u>(71)</u>	<u>-</u>	<u>(71)</u>
	<u>\$ 132,431</u>	<u>(132,431)</u>	<u>(132,360)</u>	<u>(71)</u>

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
<b>January 1, 2012</b>				
Non-derivative financial liabilities:				
Short-term borrowing	\$ 166,951	(166,951)	(166,951)	-
Notes and accounts payable	86,428	(86,428)	(86,428)	-
Other payables	166,384	(166,384)	(166,384)	-
Guarantee deposits	4,871	(4,871)	-	(4,871)
	<u>\$ 424,634</u>	<u>(424,634)</u>	<u>(419,763)</u>	<u>(4,871)</u>

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amount.

## 4. Currency risk

## (i) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follow:

	<u>December 31, 2013</u>			<u>December 31, 2012</u>			<u>January 1, 2012</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
Financial assets									
Monetary items									
USD	\$4,640	29.805	138,290	2,078	29.04	60,346	642	30.275	19,439
EUR	558	41.090	22,932	813	38.49	31,306	826	39.180	32,363
Financial liabilities									
Monetary items									
USD	2,410	29.805	71,839	1,716	29.04	51,139	2,437	30.275	73,772

## (ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade and other receivables, short-term borrowings, and trade and other payables that are denominated in foreign currency.

The analysis is performed on the same basis for both periods.

A 5% weakening (strengthening) of appreciation (depreciation) of the TWD against the USD and EUR as of December 31, 2013 and 2012 would have increased or decreased the net profit before tax for the year ended December 31, 2013 and 2012 as follows:

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
USD (compare the TWD)		
Appreciate 5%	\$ 3,323	460
Depreciate 5%	(3,323)	(460)
EUR (against the TWD)		
Appreciate 5%	1,147	1,565
Depreciate 5%	(1,147)	(1,565)

## 5. Interest Rate analysis

The details of financial assets exposed to interest rate risk were as follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Variable rate instruments (carrying amount):			
Financial assets	\$ 92,005	233,336	81,386

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents management of the Group's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decrease by \$230 and \$583 for the years ended December 31, 2013 and 2012, respectively, which would be mainly resulted from the bank savings.

## 6. Fair value

## (i) Fair value and carrying amount

The management of the Group believes that the carrying amounts of the financial assets and liabilities in the financial statement measured at amortized cost to be a reasonable approximation of fair value.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (ii) Fair value hierarchy

The table below analyzes financial instruments carried at fair value by the levels in the fair value hierarchy. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2013</b>				
Financial assets at fair value through profit or loss	\$ <u>-</u>	<u>69</u>	<u>-</u>	<u>69</u>
<b>January 1, 2012</b>				
Financial assets at fair value through profit or loss	\$ <u>-</u>	<u>3,259</u>	<u>-</u>	<u>3,259</u>

There were no transfers from one level to another in the years ended December 31, 2013 and 2012.

## (iii) Valuation techniques and assumptions used in fair value determination

The Group uses the following methods in determining the fair value of its financial assets and liabilities:

- A. The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value is estimated on the basis of the result of a valuation technique. The estimations, hypotheses and discount rate refer to those used by financial instruments as a reference.
- B. For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis based on expected future cash flows.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(o) Financial risk management****1.. Briefings**

The Group is exposed to the following risks arising from financial instruments :

(i) Credit risk

(ii) Liquidity risk

(iii) Market risk

In this note expressed the information on risk exposure and objectives, policies and process of risk measurement and management. For detailed information, please refer to the related notes of each risk.

**2. Structure of risk management**

The Group's finance department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both domestic and international financial market operations.

The Group minimizes the risk exposure through derivative financial instruments. The Board of Directors regulated the use of derivative and non-derivative financial instruments in accordance with the Group's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and the investments of excess liquidity. The internal auditors of the Group continue with the review of the amount of the risk exposure in accordance with the Group's policy and the risk management policies and procedures. The Group has no transactions in financial instruments for the purpose of speculation.

**3. Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash in banks.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (i) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, and these limits are reviewed periodically. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. The Group constantly assesses the financial status of the customers.

The Group's customers are mainly from wide range customer base. The Group does not concentrate on a specific customer, thus, there should be no concern on the significant concentrations of accounts receivable credit risk. And in order to mitigate accounts receivable credit risk, the Group constantly assesses the financial status of the customers, and does not request the customers to provide any guarantee or security.

## (ii) Cash and cash in banks

The Group deposits the cash in different financial institutions for the purpose of controlling the credit risk in each financial institution. Therefore, there is no significant credit risk of bank deposits.

## 4. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements.

The loans and borrowings from the bank forms an important source of liquidity for the Group. As of December 31, 2013, and December 31 and January 1, 2012, the unused short-term bank facilities were \$162,000, \$121,040 and \$355,275, respectively.

## 5. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (i) Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily, the New Taiwan Dollars (TWD), Euro (EUR), US Dollars (USD), and Chinese Yuan (CNY).

The Group uses the derivate financial instrument for hedging. Hence, the gains or losses deriving from the fluctuation of exchange rate will be offset with the hedging item. The market risk is insignificant.

## (ii) Interest rate risk

The Group borrows funds on variable interest rates, which has a risk exposure in cash flow.

## (p) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares and retained earnings.

The Group monitors the capital structure by way of periodical review on the liability ratio. The Group's capital is the "total equity" in the balance sheet, same with the total liabilities being subtracted to the total assets. As of December 31, 2013, and December 31 and January 1, 2012, the liability ratio was as follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Total liabilities	\$ 180,041	190,750	563,066
Total assets	915,152	1,111,813	1,020,550
Liability ratio	20%	17%	55%

Because the Group had profited on the disposal of investment property and repaid the short-term borrowings in October, 2012, and had also profited on the disposal of property, plant and equipment in October, 2013, the liability ratio resulted to a decrease on December 31, 2013 and 2012.

## (q) Non-cash transaction financing activity:

The Company's non-cash transaction financing activity has increased its common stock by transferring retained earnings and employee bonuses. Please refer to notes 6(k).

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

**(7) Related-Party Transactions****(a) Parent company and ultimate controlling company**

The Company is the ultimate controlling party of the Group and its subsidiaries.

**(b) Key management personnel compensation**

Key management personnel compensation comprised:

	<u>2013</u>	<u>2012</u>
Short-term employee benefits	\$ 10,253	35,441
Post-employment benefits	<u>216</u>	<u>316</u>
	<u>\$ 10,469</u>	<u>35,757</u>

**(8) Pledged Assets**

The carrying values of pledged assets were as follows:

<u>Account</u>	<u>Subject</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Land and buildings and investments property	Guarantee for short-term loans and the credit line	\$ -	17,379	467,295
Other current assets	Warranty guarantee	<u>133</u>	<u>3</u>	<u>3</u>
		<u>\$ 133</u>	<u>17,382</u>	<u>467,298</u>

**(9) Commitments and contingencies: none****(10) Losses due to major disasters: none****(11) Subsequent events:**

The Company contracted with non-related parties to acquire land and building to be used as investment in January 2014 for \$169,000. The transferee process for the ownership was completed.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (12) Other

(a) The followings are the summary statement of current period employee benefits, depreciation and amortization expenses by function:

By item	By function	2013			2012		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits							
Salary		-	85,955	85,955	-	136,827	136,827
Labor and health insurance		-	11,898	11,898	-	11,180	11,180
Pension		-	3,094	3,094	-	2,755	2,755
Others		-	973	973	-	995	995
Depreciation		4,648	1,449	6,097	5,553	1,602	7,155
Amortization		8,769	561	9,330	3,107	1,047	4,154

## (13) Segment information

## (a) General Information

The major business activities of the Group are research, development and sale of LCD monitors and related components and real estate rental business. The reportable operating segments based on the sales operation area are Europe, Americas, Taiwan and other.

## (b) Reportable segments profit or loss, segment assets, segment liabilities, and their measurement and reconciliations.

The operating segments accounting policies are similar to the ones described in note 4 "significant accounting policies". The operating segment information was as follows:

	2013					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
<b>Revenue</b>						
Revenue from external customers \$	510,977	87,899	20,957	5,245	-	625,078
Revenue from segments	916	4,843	221,640	-	(227,399)	-
	<u>\$ 511,893</u>	<u>92,742</u>	<u>242,597</u>	<u>5,245</u>	<u>(227,399)</u>	<u>625,078</u>
Interest expense	(8)	-	-	-	-	(8)
Depreciation and amortization	(338)	(6)	(15,075)	(8)	-	(15,427)
Reportable segment profit (loss)	<u>\$ (8,650)</u>	<u>(4,680)</u>	<u>(783)</u>	<u>(2,458)</u>	<u>19,766</u>	<u>3,195</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reportable segment liabilities	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	2012					Total
	Europe	America	Taiwan	Others	Adjustment & Elimination	
<b>Revenue</b>						
Revenue from external customers	\$ 496,594	108,708	35,320	294	-	640,916
Revenue from segments	7,096	5,356	381,843	-	(394,295)	-
	<u>\$ 503,690</u>	<u>114,064</u>	<u>417,163</u>	<u>294</u>	<u>(394,295)</u>	<u>640,916</u>
Interest expense	(1,943)	-	(3,084)	-	-	(5,027)
Depreciation and amortization	(450)	(7)	(10,850)	(2)	-	(11,309)
Reportable segment profit (loss)	<u>\$ 474</u>	<u>(11,175)</u>	<u>507,763</u>	<u>(1,104)</u>	<u>11,442</u>	<u>507,400</u>
Reportable segment assets	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Reportable segment liabilities	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## (c) Production information

The Group's information about revenue from external customers was as follows:

<u>Products</u>	<u>2013</u>	<u>2012</u>
LCD monitors	\$ 617,082	619,097
Others accessories	7,996	5,390
Rental revenue	-	16,429
	<u>\$ 625,078</u>	<u>640,916</u>

## (d) Geographic information

The Group's sales presented by customer location and non-current assets presented by location, the geographic information were as follows:

## 1. Revenue from external customers:

<u>Area</u>	<u>2013</u>	<u>2012</u>
Netherlands	\$ 167,305	168,570
Germany	116,520	123,423
United States	94,304	93,533
Others	246,949	255,390
	<u>\$ 625,078</u>	<u>640,916</u>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 2. Non-current Assets:

<u>Area</u>	<u>2013</u>	<u>2012</u>
Taiwan	\$ 128,540	31,682
Others	<u>6,616</u>	<u>6,480</u>
	<u>\$ 135,516</u>	<u>38,162</u>

Non-currents assets included property, plant and equipment, intangible assets and other assets but don't include financial instruments and non-current deferred tax assets.

## (e) Information about major customers

<u>Customer:</u>	<u>2013</u>	<u>2012</u>
A Company	\$ <u>108,628</u>	<u>114,766</u>

## (14) First-time adoption of IFRS

The consolidated financial statements for the year ended December 31, 2012 were originally prepared in accordance with the ROC GAAP. As stated in note 4(a), the consolidated financial statements are prepared for the first annual consolidated financial statements prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs and IAS 1 endorsed by the FSC has been adopted.

The accounting policies stated in note 4 have been adopted when preparing the comparative consolidated financial statements for the year ended December 31, 2012, the consolidated balance sheet as of December 31, 2012 and the first IFRSs consolidated balance sheet as of January 1, 2012 (the conversion date of the Group).

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

When preparing the financial statements for fiscal year 2012, the Group set the amounts in the financial statements prepared in accordance with the ROC GAAP as the beginning point for adjustments. The impact on and explanations for the financial status, financial performances and cash flows for each point or period of time arising from the conversion from the ROC GAAP to the IFRSs endorsed by the FSC were as follows.

## (a) Reconciliation of consolidated balance sheet

	December 31, 2012			January 1, 2012		
	ROC GAAP	Effect of transition to IFRSs	IFRSs	ROC GAAP	Effect of transition to IFRSs	IFRSs
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 837,643	-	837,643	86,887	-	86,887
Current financial assets at fair value through profit or loss	-	-	-	3,259	-	3,259
Notes and accounts receivable, net	62,447	-	62,447	72,845	-	72,845
Other receivables (2.)	1,121	(3)	1,118	115,015	(3)	115,012
Inventories, net	158,636	-	158,636	172,243	-	172,243
Prepayment	12,529	-	12,529	14,191	-	14,191
Other current assets (1.) (2.)	579	3	582	821	(475)	346
Total current assets	<u>1,072,955</u>	<u>-</u>	<u>1,072,955</u>	<u>465,261</u>	<u>(478)</u>	<u>464,783</u>
Property, plant and equipment (4.) (5.) (6.)	21,168	3,001	24,169	483,966	(442,502)	41,464
Investment property, net (4.)	-	-	-	-	449,541	449,541
Intangible assets (5.)	-	7,589	7,589	-	2,474	2,474
Deferred tax assets (1.)	509	187	696	44,608	478	45,086
Other non-current assets (5.) (6.)	16,994	(10,590)	6,404	26,715	(9,513)	17,202
Total non-current assets	<u>38,671</u>	<u>187</u>	<u>38,858</u>	<u>555,289</u>	<u>478</u>	<u>555,767</u>
<b>Total assets</b>	<b>\$ <u>1,111,626</u></b>	<b><u>187</u></b>	<b><u>1,111,813</u></b>	<b><u>1,020,550</u></b>	<b><u>-</u></b>	<b><u>1,020,550</u></b>
<b>Liabilities</b>						
Current liabilities:						
Short-term borrowings	\$ -	-	-	166,951	-	166,951
Current financial liabilities at fair value through profit or loss	-	-	-	-	-	-
Notes and accounts payable	83,005	-	83,005	86,428	-	86,428
Other payables	100,758	-	100,758	171,921	-	171,921
Current provisions	4,155	-	4,155	6,323	-	6,323
Other current liabilities	2,574	-	2,574	1,989	-	1,989
Total non-current liabilities	<u>190,492</u>	<u>-</u>	<u>190,492</u>	<u>433,612</u>	<u>-</u>	<u>433,612</u>
Land value increment tax (3.)	-	-	-	124,583	(124,583)	-
Deferred tax liabilities (3.)	-	187	187	-	124,583	124,583
Other non-current liabilities	71	-	71	4,871	-	4,871
Total other non-current liabilities	<u>71</u>	<u>187</u>	<u>258</u>	<u>129,454</u>	<u>-</u>	<u>129,454</u>
<b>Total liabilities</b>	<b><u>190,563</u></b>	<b><u>187</u></b>	<b><u>190,750</u></b>	<b><u>563,066</u></b>	<b><u>-</u></b>	<b><u>563,066</u></b>
<b>Equity</b>						
Ordinary shares	460,874	-	460,874	460,874	-	460,874
Legal reserve	709	-	709	709	-	709
Unappropriated retained earnings (3.) (8.)	507,243	-	507,243	(145,466)	178,856	33,390
Other equity interest (3.) (8.)	(47,763)	-	(47,763)	141,367	(178,856)	(37,489)
<b>Total equity</b>	<b><u>921,063</u></b>	<b><u>-</u></b>	<b><u>921,063</u></b>	<b><u>457,484</u></b>	<b><u>-</u></b>	<b><u>457,484</u></b>
<b>Total liabilities and equity</b>	<b>\$ <u>1,111,626</u></b>	<b><u>187</u></b>	<b><u>1,111,813</u></b>	<b><u>1,020,550</u></b>	<b><u>-</u></b>	<b><u>1,020,550</u></b>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (b) Reconciliation of consolidated statement of comprehensive income

	The year ended December 31, 2012		
	ROC GAAP	Effect of transition to IFRSs	IFRSs
Sales revenue	\$ 640,916	-	640,916
Cost of sales (7.)	<u>416,354</u>	<u>10,373</u>	<u>426,727</u>
Gross profit	<u>224,562</u>	<u>(10,373)</u>	<u>214,189</u>
Selling expenses (7.)	146,162	(15,389)	130,773
Administrative expenses (7.)	108,272	5,224	113,496
Research and development expenses	<u>5,493</u>	<u>-</u>	<u>5,493</u>
Total operating expenses	<u>259,927</u>	<u>(10,165)</u>	<u>249,762</u>
Net operating income (loss)	<u>(35,365)</u>	<u>(208)</u>	<u>(35,573)</u>
Non-operating income and expenses:			
Interest income	1,487	-	1,487
Interest expense	(5,027)	-	(5,027)
Other income	523	-	523
Gain on disposal of property, plant and equipment (3.)	752,508	(181,654)	570,854
Other loss	<u>(25,072)</u>	<u>208</u>	<u>(24,864)</u>
Total non-operating income and expense	<u>724,419</u>	<u>(181,446)</u>	<u>542,973</u>
Profit before tax	689,054	(181,654)	507,400
Tax expense (3.)	<u>36,345</u>	<u>(2,798)</u>	<u>33,547</u>
Profit	<u>\$ 652,709</u>	<u>(178,856)</u>	<u>473,853</u>
<b>Other comprehensive income:</b>			
Other comprehensive income, before tax, exchange differences on translation			(1,896)
Income tax relating to components of other comprehensive income			<u>8,378</u>
Other comprehensive income, net			<u>(10,274)</u>
Comprehensive income			<u>\$ 463,579</u>
Earnings per share:			
Basic net income per share (dollars)	<u>\$ 14.16</u>	<u>(4.37)</u>	<u>9.79</u>
Diluted net income per share (dollars)	<u>\$ 13.54</u>	<u>(4.16)</u>	<u>9.38</u>

## (c) Significant adjustments in consolidated statements of cash flows

As of December 31 and January 1, 2012, there were no significant differences between the consolidated statement of cash flows prepared in accordance with the ROC GAAP and with the IFRSs endorsed by the FSC.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (d) Explanation to the reconciliation

- When the Group estimates the income tax, it should consider the investment tax credits, temporary differences, and other factors for estimating the deferred income tax assets and liabilities. According to IFRSs endorsed by the FSC, the deferred income tax assets and liabilities should be classified as non-current assets and liabilities while the right of statutory tax offsets and other related conditions are considered. In addition, under the ROC GAAP, the deferred income tax assets and liabilities were offset mutually and presented as a net amount. Therefore, the income tax assets – current were reclassified as income tax assets – non-current, and the deferred income tax liabilities which were offset by the deferred income tax assets were reclassified as income tax assets – non-current as of January 1 and December 31, 2012, respectively. The effects of this GAAP difference were as follows:

	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Consolidated balance sheet		
Increase (decrease) in deferred income tax assets – current	\$ -	(478)
Increase (decrease) in deferred income tax assets – non-current	187	478
Decrease (increase) in deferred income tax liability – non-current	<u>(187)</u>	<u>-</u>
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

- The Group's other receivables-restricted deposits classified under the ROC GAAPs were reclassified to other current assets- other financial asset classified in accordance with the IFRSs endorsed by the FSC amounting to \$3 as of December 31, 2012 and January 1, 2012, respectively.
- The Group elected the exemption of using the book value as the deemed cost to be the value of fixed assets in accordance with IFRS endorsed by the FSC, and recalculated the land revaluation increment amounting to \$178,856 as deemed cost. Therefore, the Group reclassified the unrealized land revaluation increment which was originally recognized under equity adjustments according to the ROC GAAP to retained earnings in the amount of \$178,856 on the conversion date. In addition, as of January 1, 2012, the provision for land value increment tax for revaluation increment which was accounted for under other liabilities in accordance with the ROC GAAP was reclassified as deferred tax liabilities– non-current under other liabilities amounting to \$124,583. The Group entered into an agreement to sell this land in 2012, and the unrealized land revaluation increment which was accounted for under stockholders' equity in accordance with the ROC GAAP was reclassified as realized gain amounting to \$178,856. The Group reclassified the unrealized revaluation increments amounting to \$178,856 to retained earnings as a result of electing the exemption from IFRS 1, and a gain on disposal of land is expected to decrease by \$181,654 in 2012.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Otherwise, the land revaluation tax that was originally classified as the deduction of gain on disposal of fixed assets under ROC GAAP amounting to \$121,785 was reclassified as current income tax expense amounting to \$121,785, and deferred tax gain amounting to \$124,583 according to IFRSs endorsed by the FSC, respectively.

4. In accordance with IFRSs endorsed by the FSC, if the property is consistent with the definition of IAS 40, it will be classified as investment property. However, it was classified as fixed assets in accordance with the ROC GAAPs. The Group elected the exemption, in accordance with IFRSs Rule No.1000032208 issued by the FSC, and the Regulations Governing Profit-seeking Enterprises for asset revaluation, as the deemed cost of fixed asset reclassified as investment property amounting to \$449,541 on the conversion date, January 1, 2012.
5. The maintenance warranty which was accounted for under deferred expense in accordance with the ROC GAAP was reclassified as property and equipment amounting to \$3,829 and \$0 as of January 1 and December 31, 2012, respectively. The cost for the development and upgrading of the screen panel which was accounted for under deferred expense in accordance with the ROC GAAP was reclassified as intangible assets amounting to \$2,474 and \$7,589, respectively.
6. Pursuant to IFRSs, the idled assets in accordance with the ROC GAAP were reclassified as property, plant and equipment amounting to \$3,210 and \$3,001 as of January 1 and December 31, 2012, respectively.
7. Pursuant to IFRSs, the warranty expense under operating expense recognized in accordance with the ROC GAAP was reclassified as cost of sales amounting to \$10,373 in 2012.
8. Pursuant to IFRSs, the depreciation expense of idle assets recognized in other loss in accordance with the ROC GAAP was reclassified as administrative expense amounting to \$208 in 2012.
9. In accordance with Rule No. 1010012865 issued by the Financial Supervisory Commission, Executive Yuan (FSC) on April 6, 2012, the Group transferred the retained earnings because of the adoption of the exemption in accordance with the IFRS 1, "First-time Adoption of International Financial Reporting Standard", wherein, the Group should set aside a special reserve equals to the amounts of unrealized revaluation increments and cumulative translation adjustment under stockholders' equity. Because the Group disposed all the related assets in 2012, the Group did not need to set aside the special reserve of unrealized revaluation increments as of January 1, 2013.