

**ASSOCIATED INDUSTRIES CHINA, INC.**  
**AND SUBSIDIARIES**  
**Consolidated Financial Statements**  
**December 31, 2014 and 2013**  
**(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, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2014 and 2013. 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\$20,692 thousand and NT\$23,537 thousand, constituting 2.41% and 2.57% of the consolidated totals as of December 31, 2014 and 2013, respectively; and the total revenues amounting to NT\$72,724 thousand and NT\$87,900 thousand, constituting 10.63% and 14.06% of the consolidated totals for 2014 and 2013, 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, 2014 and 2013, 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 its annual parent company only financial reports as of and for the years ended December 31, 2014 and 2013, on which we have issued modified unqualified opinion.

A handwritten signature in black ink, appearing to be 'KPMG' with a stylized flourish at the end.

March 17, 2015

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, 2014 and 2013**  
**(expressed in thousands of New Taiwan dollars)**

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents (note 6(a))	\$ 171,885	20	487,711	53
Current financial assets at fair value through profit or loss (note 6(b))	313	-	69	-
Notes and accounts receivable, net (note 6(d))	62,056	7	85,831	9
Other receivables, net (note 6(d))	2,006	-	407	-
Inventories, net (note 6(e))	211,809	25	186,815	21
Prepayments	28,408	3	16,068	2
Other current assets (note 8)	841	-	2,552	-
	<u>477,318</u>	<u>55</u>	<u>779,453</u>	<u>85</u>
<b>Non-current assets:</b>				
Financial assets carried at cost – noncurrent (note 6(c))	50,000	6	-	-
Property, plant and equipment (notes 6(f) and 8)	126,316	15	125,061	14
Investment property, net (note 6(g))	169,565	20	-	-
Intangible assets (note 6(h))	27,638	3	3,641	-
Deferred tax assets (note 6(m))	-	-	543	-
Other non-current assets	6,068	1	6,454	1
	<u>379,587</u>	<u>45</u>	<u>135,699</u>	<u>15</u>
<b>Total assets</b>	<b>\$ 856,905</b>	<b>100</b>	<b>915,152</b>	<b>100</b>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Short-term borrowings (note 6(i))	\$ 40,000	5	-	-
Notes and accounts payable	66,840	8	90,299	10
Other payables	53,908	6	78,550	9
Current provisions (note 6(j))	4,807	1	6,214	1
Other current liabilities	3,788	-	4,943	-
	<u>169,343</u>	<u>20</u>	<u>180,006</u>	<u>20</u>
<b>Non-current liabilities:</b>				
Other non-current liabilities	945	-	35	-
	<u>945</u>	<u>-</u>	<u>35</u>	<u>-</u>
<b>Total liabilities</b>	<b>170,288</b>	<b>20</b>	<b>180,041</b>	<b>20</b>
<b>Equity: (notes 6(n) (o))</b>				
Ordinary shares	538,406	63	499,720	55
Capital surplus	23,452	3	20,986	2
Retained earnings:				
Legal reserve	51,433	6	51,433	6
Special reserve	45,026	5	47,763	5
Unappropriated earnings	88,627	10	160,235	17
	<u>185,086</u>	<u>21</u>	<u>259,431</u>	<u>28</u>
<b>Other equity:</b>				
Exchange differences on translation of foreign financial statements	(45,441)	(5)	(45,026)	(5)
Unearned employee benefit	(14,886)	(2)	-	-
	<u>(60,327)</u>	<u>(7)</u>	<u>(45,026)</u>	<u>(5)</u>
<b>Total equity</b>	<b>686,617</b>	<b>80</b>	<b>735,111</b>	<b>80</b>
<b>Total liabilities and equity</b>	<b>\$ 856,905</b>	<b>100</b>	<b>915,152</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, 2014 and 2013**  
 (expressed in thousands of New Taiwan dollars, except earnings per share)

	2014		2013	
	Amount	%	Amount	%
<b>Operating revenue</b>				
Sales revenue	\$ 700,141	103	642,690	103
Less : Sales returns and allowances	19,058	3	17,612	3
Rental revenue (note (k))	<u>3,289</u>	-	<u>-</u>	-
	684,372	100	625,078	100
<b>Cost of sales (notes 6(e) (k))</b>	<u>480,050</u>	<u>70</u>	<u>462,411</u>	<u>74</u>
<b>Gross profit</b>	<u>204,322</u>	<u>30</u>	<u>162,667</u>	<u>26</u>
<b>Operating expenses (note 12) :</b>				
Selling expenses	115,433	17	105,911	17
Administrative expenses	73,723	11	81,208	13
Research and development expenses	<u>7,340</u>	<u>1</u>	<u>7,872</u>	<u>1</u>
	<u>196,496</u>	<u>29</u>	<u>194,991</u>	<u>31</u>
<b>Net operating income (loss)</b>	<u>7,826</u>	<u>1</u>	<u>(32,324)</u>	<u>(5)</u>
<b>Non-operating income and expenses:</b>				
Interest income	2,198	-	5,653	1
Other income	312	-	3,585	1
Gain on disposals of property, plant and equipment (note 6(f))	-	-	11,123	2
Foreign exchange gains (losses), net	(9,557)	(1)	14,575	2
Gains on financial assets at fair value through profit or loss	1,049	-	679	-
Interest expense	(386)	-	(8)	-
Miscellaneous disbursements	<u>-</u>	<u>-</u>	<u>(88)</u>	<u>-</u>
	<u>(6,384)</u>	<u>(1)</u>	<u>35,519</u>	<u>6</u>
<b>Profit before tax</b>	1,442	-	3,195	1
<b>Less : tax expense (note 6(m))</b>	<u>829</u>	<u>-</u>	<u>21,279</u>	<u>3</u>
<b>Profit (loss)</b>	<u>613</u>	<u>-</u>	<u>(18,084)</u>	<u>(2)</u>
<b>Other comprehensive income (loss):</b>				
Other comprehensive income, before tax, exchange differences on translation	<u>(415)</u>	<u>-</u>	<u>2,737</u>	<u>-</u>
<b>The comprehensive income (loss)</b>	\$ <u><u>198</u></u>	<u><u>-</u></u>	\$ <u><u>(15,347)</u></u>	<u><u>(2)</u></u>
<b>Earnings (loss) per share (note 6(p)):</b>				
Basic earnings (loss) per share	\$ <u><u>0.01</u></u>		\$ <u><u>(0.35)</u></u>	
Diluted earnings per share	\$ <u><u>0.01</u></u>			

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, 2014 and 2013**

(expressed in thousands of New Taiwan dollars)

	Retained earnings				Other equity		Total equity
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange differences on translation of foreign financial statements	
<b>Balance on January 1, 2013</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
Appropriation and distribution of retained earnings:							
Special reserve reversed	-	-	-	(2,737)	2,737	-	-
Stock and Cash dividends	24,986	-	-	-	(74,958)	-	(49,972)
	24,986	-	-	(2,737)	(72,221)	-	(49,972)
Profit for the year ended December 31, 2014	-	-	-	-	613	-	613
Other comprehensive income for the year ended December 31, 2014	-	-	-	-	-	(415)	(415)
Comprehensive income for the year ended December 31, 2014	-	-	-	-	613	(415)	198
Issuance of restricted employee shares	13,700	2,466	-	-	-	-	(16,166)
Compensation cost of restricted employee share	-	-	-	-	-	-	1,280
<b>Balance on December 31, 2014</b>	\$ 538,406	23,452	51,433	45,026	88,627	(45,441)	686,617

Note: Directors' and supervisors remuneration amounting to \$8,175 and employee bonuses amounting to \$40,876 were recognized in the 2012 Consolidated 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, 2014 and 2013**

(expressed in thousands of New Taiwan dollars)

	<u>2014</u>	<u>2013</u>
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 1,442	3,195
<b>Adjustments:</b>		
Adjusting to reconcile profit		
Depreciation expense	3,557	6,097
Amortization expense	8,992	9,330
Provision (reversal of provision) for bad debt expense	(31)	23
Interest expense	386	8
Interest income	(2,198)	(5,653)
Compensation cost of restricted employee share	1,280	-
Gain (loss) on disposal of property, plan and equipment	21	(11,123)
Other	-	3
	<u>12,007</u>	<u>(1,315)</u>
<b>Changes in operating assets and liabilities:</b>		
Changes in financial assets at fair value through profit or loss	(244)	(69)
Decrease (increase) in notes and accounts receivable	23,806	(23,407)
Decrease (increase) in other receivables	(1,488)	621
Decrease (increase) in inventories	(24,994)	(28,179)
Decrease (increase) in prepayment	(12,592)	(3,293)
Decrease in other current assets	1,711	(1,840)
Decrease (increase) in other operating assets	531	218
	<u>(13,270)</u>	<u>(55,949)</u>
<b>Changes in operating liabilities:</b>		
Increase (decrease) in notes and accounts payable	(23,459)	7,294
Increase (decrease) in other payable	(9,213)	(878)
Increase (decrease) in provisions	(1,432)	2,059
Increase (decrease) in other operating liabilities	(1,155)	2,369
	<u>(35,259)</u>	<u>10,844</u>
<b>Total changes in operating assets and liabilities</b>	<u>(48,529)</u>	<u>(45,105)</u>
<b>Total adjustments</b>	<u>(36,522)</u>	<u>(46,420)</u>
Cash flows from (used in) operations	(35,080)	(43,225)
Interest received	2,309	5,743
Interest paid	(357)	(8)
Income taxes paid	(16,257)	(6,067)
<b>Net Cash flows used in operating activities</b>	<u>(49,385)</u>	<u>(43,557)</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of property, plant and equipment	(3,841)	(124,025)
Proceeds from disposal of property, plant and equipment (excluding related costs \$1,411 and 8,485, respectively)	-	28,200
Acquisition of investment property	(170,551)	-
Increase in refundable deposits	386	(268)
Acquisition of intangible assets	(32,989)	(5,382)
Acquisition of financial assets carried at cost – noncurrent	(50,000)	-
Other investing activities	-	(130)
<b>Net cash flows used in investing activities</b>	<u>(256,995)</u>	<u>(101,605)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	40,000	-
Increase (decrease) in guarantee deposits	910	(36)
Cash dividends paid	(49,972)	(207,393)
<b>Net cash flows used in financing activities</b>	<u>(9,062)</u>	<u>(207,429)</u>
Effect of exchange rate changes on cash and cash equivalents	(384)	2,659
Net decrease in cash and cash equivalents	(315,826)	(349,932)
Cash and cash equivalents at beginning of period	487,711	837,643
Cash and cash equivalents at end of period	\$ <u>171,885</u>	<u>487,711</u>

See accompanying notes to consolidated financial statements.

# ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(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, and related components, sale of medical equipments, 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 17, 2015.

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

(a) The impact of the 2013 version of the International Financial Reporting Standard ("IFRS") endorsed by the Financial Supervisory Commissions R.O.C. ("FSC") but not yet in effect.

According to Rule No.1030010325 issued on April 3, 2014 by the FSC, listed, over-the-counter, and emerging stock companies are required to adopt the 2013 version of the IFRS endorsed by the FSC (IFRS 9 Financial instruments is excluded) in preparing the 2015 financial statements. The new standards and amendments issued by the International Accounting Standards Board ("IASB") were as follows:

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
Amended IFRS 1 " <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> "	July 1, 2010
Amended IFRS 1 " <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> "	July 1, 2011
Amended IFRS 1 " <i>Government Loans</i> "	January 1, 2013
Amended IFRS 7 " <i>Disclosure – Transfers of Financial Assets</i> "	July 1, 2011
Amended IFRS 7 " <i>Disclosure – Offsetting Financial Assets and Financial Liabilities</i> "	January 1, 2013
IFRS 10 " <i>Consolidated Financial Statements</i> "	January 1, 2013 (Investment Entities amendments, effective January 1, 2014)
IFRS 11 " <i>Joint Arrangements</i> "	January 1, 2013
IFRS 12 " <i>Disclosure of Interests in Other Entities</i> "	January 1, 2013

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

**Notes to Consolidated Financial Statements**

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
IFRS 13 " <i>Fair Value Measurement</i> "	January 1, 2013
Amended IAS 1 " <i>Presentation of Items of Other Comprehensive Income</i> "	July 1, 2012
Amended IAS 12 " <i>Deferred Tax: Recovery of Underlying Assets</i> "	January 1, 2012
Amended IAS 19 " <i>Employee Benefits</i> "	January 1, 2013
Amended IAS 27 " <i>Separate Financial Statements</i> "	January 1, 2013
Amended IAS 32 " <i>Offsetting Financial Assets and Financial Liabilities</i> "	January 1, 2014
IFRIC 20 – " <i>Stripping Costs in the Production Phase of a Surface Mine</i> "	January 1, 2013

After the evaluation, the Group believes that applying the IFRSs 2013 will not cause any significant changes in the consolidated financial statements, except for the following:

1. IAS 1 Presentation of Financial Statements

The other comprehensive income section is required to present line items which are classified by their nature, and are grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. Allocation of income tax to two groups of items of other comprehensive is also required. The Group is expecting to change the presentation of comprehensive income statements in accordance with the standard.

(b) Impact of IFRS issued by the IASB but not yet endorsed by the FSC

The 2013 version of the IFRS issued by the IASB but not yet endorsed by the FSC were as follows:

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
IFRS 9 " <i>Financial Instruments</i> "	January 1, 2018
Amended IFRS 10 and IAS 28 " <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> "	January 1, 2016
Amended IFRS 10, IFRS 12 and IAS 28 " <i>Applying the Consolidation Exceptions</i> "	January 1, 2016
Amended IFRS 11 " <i>Accounting for acquisition of interests in joint operations</i> "	January 1, 2016
IFRS 14 " <i>Regulatory Deferral Accounts</i> "	January 1, 2016
IFRS 15 " <i>Revenue from contracts with customers</i> "	January 1, 2017
Amended IAS 1 " <i>Disclosure-Initiative</i> "	January 1, 2016
Amended IAS 16 and IAS 38 " <i>Clarification of acceptable methods of depreciation and amortization</i> "	January 1, 2016
Amended IAS 16 and IAS 41 " <i>Agriculture: bearer plants</i> "	January 1, 2016
Amended IAS 19 " <i>Defined Benefit Plans: Employee Contributions</i> "	July 1, 2014

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
Amended IAS 27 “ <i>Equity Method in Separate Financial Statements</i> ”	January 1, 2016
Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014
Amended IFRIC 21 “ <i>Levies</i> ”	January 1, 2014

As the standards and amendments above have not been endorsed by the FSC, the Group is in the process of assessing the impact on the financial position and the results of operations. Related impact will be disclosed following the completion of its assessments.

**(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 consolidated financial statements.

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, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (“IFRSs endorsed by the FSC”).

**(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	
			December 31, 2014	December 31, 2013
The Company	Global Maritime Finance Co., Ltd (GMF)	Investment	100%	100%
"	AG Neovo Technology BV. (AG Neovo B.V)	Sale of LCD monitors	100%	100%
"	AG Neovo Investment Co., Ltd (AG Neovo Investment)	Investment	100%	100%
AG Neovo Investment	AG Neovo Technology (Shanghai) Co., Ltd (AG Neovo Shanghai)	Sale of LCD monitors	100%	100%
GMF	AG Neovo International Ltd. (AG Neovo International)	Investment	100%	100%
GMF	AG Neovo Technology Corp. (AG Neovo USA)	Sale of LCD monitors	100%	100%

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**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.

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.

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.

**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 are translated to the New Taiwan dollars 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**

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form parts of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(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 comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(Continued)

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

The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

**(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 recognised 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) Available-for sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using the trade-date accounting.

Investments in equity instruments that do not have any quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

(Continued)

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

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established. Such dividend income is included in non-operating income and expenses.

**(iii) 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.

**(iv) 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.

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.

(Continued)

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

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.

(v) 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.

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.

(Continued)



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

**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.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(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 amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

**(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.

(Continued)

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

**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.

(Continued)

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

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.

**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.

(Continued)

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

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 capitalised 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 recognised 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.

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 are summarized as follows:

1. Computer software: 3~5 years.
2. Product development expenses: 3 years.

(Continued)

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

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.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(r) Share-based payment**

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there are no differences between the expected and the actual outcomes.

**(s) 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

(Continued)



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

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.

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.

(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.

(Continued)

**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, 2014</u>	<u>December 31, 2013</u>
Petty cash, checking accounts and demand deposits	\$ 128,249	115,128
Time deposits	43,636	342,561
Bonds sold under repurchase agreement	<u>-</u>	<u>30,022</u>
	<u>\$ 171,885</u>	<u>487,711</u>

Please refer to note 6(q) 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, 2014</u>	<u>December 31, 2013</u>
<b>Financial assets at fair value through profit or loss:</b>		
Financial assets held for trading:		
Derivative instruments not used for hedging	\$ <u>313</u>	<u>69</u>

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Notes receivable	\$ 78	329
Accounts receivable	62,895	87,441
Other receivables	<u>2,006</u>	<u>407</u>
	64,979	88,177
Less: allowance for impairment loss	(57)	(88)
Allowance for sales discounts	<u>(860)</u>	<u>(1,851)</u>
	<u>\$ 64,062</u>	<u>86,238</u>
Notes and account receivable, net	<u>\$ 62,056</u>	<u>85,831</u>
Other receivables	<u>\$ 2,006</u>	<u>407</u>

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Not past due	\$ 57,003	60,516
Past due 1 to 30 days	7,976	24,609
Past due 31 to 90 days	<u>-</u>	<u>3,052</u>
	<u>\$ 64,979</u>	<u>88,177</u>

The change in the allowance for receivables and other receivables for the years ended December 31, 2014 and 2013 were as follows:

	<u>Individually</u> <u>assessed impairment</u>	<u>Collectively</u> <u>assessed impairment</u>	<u>Total</u>
Balance at January 1, 2014	\$ -	88	88
Reversal of impairment loss	<u>-</u>	<u>(31)</u>	<u>(31)</u>
Balance at December 31, 2014	<u>\$ -</u>	<u>57</u>	<u>57</u>
	<u>Individually</u> <u>assessed impairment</u>	<u>Collectively</u> <u>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>

(Continued)

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

**Notes to Consolidated Financial Statements**

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.

(e) Inventories

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Merchandise inventory	\$ <u>211,809</u>	<u>186,815</u>

The details of cost of sales for the years ended December 31, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Cost of goods sold and expenses	\$ 477,441	461,653
Inventory valuation loss and obsolescence	<u>1,290</u>	<u>758</u>
	\$ <u>478,731</u>	<u>462,411</u>

As of December 31, 2014 and 2013, the Group did not provide any inventories as collaterals for its loans.

(f) Property, plant and equipment

- The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2014 and 2013 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, 2014	\$ 95,104	28,192	790	23,324	147,410
Additions	-	224	2,003	1,614	3,841
Disposal and derecognitions	-	-	-	(4,701)	(4,701)
Effect of movements in exchange rates	-	-	79	(622)	(543)
Balance on December 31, 2014	\$ <u>95,104</u>	<u>28,416</u>	<u>2,872</u>	<u>19,615</u>	<u>146,007</u>
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>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<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>Depreciation:</b>					
Balance on January 1, 2014	\$ -	610	63	21,676	22,349
Depreciation for the year	-	895	148	1,528	2,571
Disposals and derecognitions	-	-	-	(4,680)	(4,680)
Effect of movements in exchange rates	-	-	-	(549)	(549)
Balance on December 31, 2014	<u>\$ -</u>	<u>1,505</u>	<u>211</u>	<u>17,975</u>	<u>19,691</u>
Balance on January 1, 2013	\$ -	3,853	706	16,481	21,040
Depreciation for the year	-	923	63	5,111	6,097
Disposal 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>
<b>Carrying amounts:</b>					
Balance on December 31, 2014	<u>\$ 95,104</u>	<u>26,911</u>	<u>2,661</u>	<u>1,640</u>	<u>126,316</u>
Balance on January 1, 2013	<u>\$ 11,976</u>	<u>5,403</u>	<u>340</u>	<u>6,450</u>	<u>24,169</u>
Balance on December 31, 2013	<u>\$ 95,104</u>	<u>27,582</u>	<u>727</u>	<u>1,648</u>	<u>125,061</u>

The Group contracted with non-related parties to buy the land and buildings to be used as office located in Nangang District, Taipei City 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 Group 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, 2013, the related registration procedure of transfer of ownership was completed and the above receivable was fully collected.

As of December 31, 2014, and December 31, 2013, the property, plant and equipment has been pledged as collateral or restricted. Please refer to note 8.

## (g) Investments property

The Group contracted with non-related parties to buy the land and buildings located in Nangang District, Taipei City for \$170,551 in January 2014. The transferee process for the ownership was completed.

(Continued)

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

**Notes to Consolidated Financial Statements**

	<u>Land</u>	<u>Buildings and construction</u>	<u>Total</u>
<b>Cost:</b>			
Balance on January 1, 2014	\$ -	-	-
Additions	<u>111,400</u>	<u>59,151</u>	<u>170,551</u>
Balance on December 31, 2014	\$ <u><u>111,400</u></u>	<u><u>59,151</u></u>	<u><u>170,551</u></u>
<b>Accumulated depreciation:</b>			
Balance on January 1, 2014	\$ -	-	-
Depreciation for the year	<u>-</u>	<u>986</u>	<u>986</u>
Balance on December 31, 2014	\$ <u><u>-</u></u>	<u><u>986</u></u>	<u><u>986</u></u>
<b>Carrying amount:</b>			
Balance on December 31, 2014	\$ <u><u>111,400</u></u>	<u><u>58,165</u></u>	<u><u>169,565</u></u>
<b>Fair value:</b>			
Balance on December 31, 2014			\$ <u><u>170,551</u></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. Please refer to note 6 (k).

As of December 31, 2014, the Group did not provide any investments property as collaterals for its loans.

(h) Intangible Assets

	<u>Product Development expense</u>	<u>Computer software and others</u>	<u>Total</u>
<b>Cost:</b>			
Balance on January 1, 2014	\$ -	17,498	17,498
Additions	<u>26,862</u>	<u>6,127</u>	<u>32,989</u>
Disposals	<u>-</u>	<u>(11,347)</u>	<u>(11,347)</u>
Balance on December 31, 2014	\$ <u><u>26,862</u></u>	<u><u>12,278</u></u>	<u><u>39,140</u></u>
Balance on January 1, 2013	\$ -	12,116	12,116
Additions	<u>-</u>	<u>5,382</u>	<u>5,382</u>
Balance on December 31, 2013	\$ <u><u>-</u></u>	<u><u>17,498</u></u>	<u><u>17,498</u></u>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<u>Product Development expense</u>	<u>Computer software and others</u>	<u>Total</u>
<b>Accumulated amortization:</b>			
Balance on January 1, 2014	\$ -	13,857	13,857
Amortization for the period	2,400	6,592	8,992
Disposals	-	(11,347)	(11,347)
Balance on December 31, 2014	<u>\$ 2,400</u>	<u>9,102</u>	<u>11,502</u>
Balance on January 1, 2013	\$ -	4,527	4,527
Amortization for the period	-	9,330	9,330
Balance on December 31, 2013	<u>\$ -</u>	<u>13,857</u>	<u>13,857</u>
<b>Carrying amount:</b>			
Balance on December 31, 2014	<u>\$ 24,462</u>	<u>3,176</u>	<u>27,638</u>
Balance on January 1, 2013	<u>\$ -</u>	<u>7,589</u>	<u>7,589</u>
Balance on December 31, 2013	<u>\$ -</u>	<u>3,641</u>	<u>3,641</u>

The Group contracted with non-related parties to buy the new product development right in August 2014. The amortization was recognized in operating costs over the 3 years estimated useful lives.

As of December 31, 2014 and 2013, the Group did not provide any intangible assets as collaterals for its loans.

## (i) Short-term borrowings

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Unsecured bank loans	\$ 15,000	-
Secured bank loans	25,000	-
Total	<u>\$ 40,000</u>	<u>-</u>
Unused credit lines for short-term borrowings	<u>\$ 283,650</u>	<u>162,000</u>
Annual interest rates	<u>1.94%~2.00%</u>	<u>-</u>

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

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

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (j) Provisions

	<u>Warranty</u>
Balance on January 1, 2014	\$ 6,214
Provisions made during the period	590
Provisions used during the period	(2,022)
Effect of movements in exchange rates	<u>25</u>
Balance on December 31, 2014	<u>\$ 4,807</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>

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

## (k) Operating lease

## 1. The Group as lessee

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Less than one year	\$ 7,151	6,173
Between one and five years	<u>10,064</u>	<u>8,227</u>
	<u>\$ 17,215</u>	<u>14,400</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, 2014 and 2013, expenses recognized in profit or loss with respect to operating leases amounted to \$12,855 and \$13,647, respectively.

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

**Notes to Consolidated Financial Statements**

2. The Group as lessor

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Less than one year	\$ 3,625	-
Between one and five years	<u>4,380</u>	<u>-</u>
	<u>\$ 8,005</u>	<u>-</u>

For the years ended December 31, 2014 the rental recognized in operating revenue amounted to \$3,289; the direct costs incurred in rental are recognized in operating costs amounting to \$1,319.

(l) 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 \$2,669 and \$3,094 for the years ended December 31, 2014 and 2013, respectively. Payment was made to the Bureau of Labour Insurance.

(m) Income taxes

1. Income tax expenses

(i) The amount of income tax for the years ended December 31, 2014 and 2013 was as follows:

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<u>2014</u>	<u>2013</u>
Current tax expense		
Current period	\$ 298	4,012
10% surtax on unappropriated earnings	-	16,024
Land value increment tax	<u>-</u>	<u>1,277</u>
	298	21,313
Deferred tax expense		
Origination and reversal of temporary differences	<u>531</u>	<u>(34)</u>
	<u>531</u>	<u>(34)</u>
Total Income tax expense	<u>\$ 829</u>	<u>21,279</u>

(ii) Reconciliation of income tax and profit before tax for 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Profit excluding income tax	\$ <u>1,442</u>	<u>3,195</u>
Income tax using the Company's domestic tax rate	245	543
Effect of tax rates in foreign jurisdiction	408	(795)
Land value increment tax	-	1,277
Tax-exempt income	-	(1,548)
Recognition of previously unrecognized tax losses	(1,233)	(1,717)
Deferred tax assets unrecognized in respect of the current tax losses	54	5,331
Recognition of previously unrecognized temporary differences	-	3,827
Under (over) provision in prior periods	-	(490)
10% surtax on unappropriated earnings	-	16,024
Other	<u>1,355</u>	<u>(1,173)</u>
	<u>\$ 829</u>	<u>21,279</u>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 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,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Deductible temporary differences	\$ 75,701	86,872
Tax losses	244,142	268,197
Foreign currency translation differences of foreign operations	<u>7,725</u>	<u>7,654</u>
	<u>\$ 327,568</u>	<u>362,723</u>

The company is able to control the timing of the reversal of the temporary differences related to the investments in subsidiaries on December 31, 2014 and 2013. 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, 2014, were as follows:

<u>Year of loss</u>	<u>Unused tax credits</u>	<u>Expiry year</u>	<u>Remark</u>
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	(assessed)
2014	<u>66,826</u>	2024	(estimated)
	<u>\$ 733,536</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, 2014, AG Neovo USA had unused net operating loss of about US\$9,069 and US\$2,932 for federal and state income tax return purposes, respectively, which can be carried forward through 2029.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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, 2014, AG Neovo B.V. had unused net operating loss of about EUR\$1,711, 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 2014 and 2013 were as follows:

	<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, 2014	\$ -	-	-	-
Recognized in (profit) or loss	-	-	-	-
Balance on December 31, 2014	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on January 1, 2013	-	-	187	187
Recognized in (profit) or loss	-	-	(187)	(187)
Balance on December 31, 2013	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</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, 2014	\$ -	-	543	543
Recognized in profit or (loss)	-	-	(543)	(543)
Balance on December 31, 2014	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on January 1, 2013	\$ -	-	696	696
Recognized in profit or (loss)	-	-	(153)	(153)
Balance on December 31, 2013	\$ <u>-</u>	<u>-</u>	<u>543</u>	<u>543</u>

3. The ROC tax authorities have examined the Company's income tax returns through 2012.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

4. Information related to the unappropriated earnings and tax deduction ratio was summarized below:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Unappropriated earnings of 1998 and after	\$ <u>88,627</u>	<u>160,235</u>
Balance of imputation credit account	\$ <u>10,129</u>	<u>3,487</u>
	<u>2014 (Estimated)</u>	<u>2013 (Actual)</u>
Creditable ratio for earnings distribution to ROC residents	\$ <u>11.43%</u>	<u>11.82%</u>

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.

## (n) Capital and other equities

As of December 31, 2014 and 2013, the authorized common stocks were all 2,000,000 with a par value of 10 New Taiwan dollars per share, and of which 53,841 and 49,972 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

## 1. Ordinary shares

Reconciliation of shares outstanding for 2014 and 2013 were as follows:

	<u>Ordinary shares</u>	
	<u>2014</u>	<u>2013</u>
(in thousands of shares)		
Balance on January 1	49,972	46,087
Shares dividends distributed to shareholders	2,499	2,305
Employee bonuses – stock	-	1,580
Issuance of new restricted employee shares	<u>1,370</u>	<u>-</u>
Balance on December 31	<u>53,841</u>	<u>49,972</u>

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Based on the resolution of the annual stockholders' meeting held on June 25, 2014, the Company declared a 1 New Taiwan dollar cash dividend per share, which amounted to \$49,972, and also increased its common stock by transferring the retained earnings amounting to \$24,986, respectively. The newly issued shares were 2,499 thousand shares. The related registration procedure has been completed on September 16, 2014.

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 to employees were 1,580 thousand shares. The total newly issued shares were 3,885 thousand shares. The related registration procedure has been completed on September 14, 2013.

#### 2. Capital surplus

The balances of capital surplus were as follows:

	December 31, 2014	December 31, 2013
Additional paid-in capital	\$ 20,986	20,986
Restricted employee shares	2,466	-
	<b>\$ 23,452</b>	<b>20,986</b>

In accordance with the ROC Company Act, 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 resolution of the annual stockholders' meeting 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. The related registration procedure has been completed.

#### 3. Retained Earning

Based on the Company's articles of incorporation, 10% of the annual net income after tax and offsetting the prior years' deficits, if any, is to be set aside as a legal reserve, and then special reserves are set aside or reversed in accordance with the relevant regulations or as required by the government. The remaining balance, if any, after deducting the above items, shall be distributed as follows:

(Continued)

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

- (i) No less than 10% as bonus to employees.
- (ii) No more than 2% as remuneration to the directors (part-time directors not included) and supervisors.
- (iii) The remaining balance and the accumulated unappropriated earnings of prior years, if any, should be distributed as dividends. The amount of dividends is determined by the board of directors and should be approved by the stockholders at their annual meeting.

According to the Company's remaining dividend policy, the type of dividends should be determined after considering the industry environment, capital needs, long-term financial plan, etc. Cash dividends to stockholders shall not be lower than 10% of total cash and stock dividends.

(i) Legal reserve

In accordance with the Company Act, 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. The balances of special reserve as of December 31, 2014 and 2013 are \$45,026 and \$47,763, respectively.

(iii) Earnings distribution

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

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

**Notes to Consolidated Financial Statements**

For the year ended December 31, 2014, the Company did not accrued and recognized the employee bonuses and directors' and supervisors' remuneration. Related information on dividend distributions to shareholders, employee bonuses and directors' and supervisors' remuneration would be available on the Market Observation Post System after the convening of the meeting of the shareholders. Differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

Based on the resolutions of the annual stockholders' meetings held on June 25, 2014 and June 18, 2013, the appropriations of dividends, employee bonuses, and directors' and supervisors' remuneration from the distributable retained earnings of 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Dividends distributed to common shareholders:		
Cash	\$ 49,972	207,393
Shares	<u>24,986</u>	<u>23,044</u>
	<u>74,958</u>	<u>230,437</u>
Employee bonuses – cash	\$ -	4,088
Employee bonuses-stock	-	36,788
Directors' and supervisors' remuneration	-	<u>8,175</u>
	<u>\$ -</u>	<u>49,051</u>

4. Other Equity

	<b>Foreign exchange differences arising from <u>foreign operation</u></b>
<b>Balance on 1 January, 2014</b>	\$ (45,026)
Foreign exchange differences (after tax):	
The Group	<u>(415)</u>
<b>Balance on 31 December, 2014</b>	\$ <u>(45,441)</u>
<b>Balance on 1 January, 2013</b>	\$ (47,763)
The Group	<u>2,737</u>
<b>Balance on 31 December 2013</b>	\$ <u>(45,026)</u>

(Continued)

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

**Notes to Consolidated Financial Statements**

(o) Share-based payment

At the meeting held on June 25, 2014, the Company's board of directors decided to issue 1,500 thousand shares of employee restricted shares to the Company's full-time employees who meet certain requirements. The restricted shares have been registered with and approved by the Securities and Futures Bureau of FSC. At the meeting held on October 13, 2014, the board of directors decided to issue the restricted shares in an installment basis. The Company issued the first restricted shares of 1,370 thousand, and the effective date of the share issuance was on October 22, 2014.

1,370 thousand shares of the aforementioned restricted shares were issued without consideration. 20%, 20%, 30% and 30% of the 1,370 thousand restricted shares were vested respectively when the employees continue to provide service for at least 1 year, 2 years, 3 years and 4 years from the registration and the effective date, and at the same time, meet the performance requirement. After the issuance, the restricted shares are kept by a trust, which is appointed by the Company, before they are vested. These restricted shares shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. The voting rights of these shares are executed by the custodian, and the custodian shall act based on the law and regulations. If the shares remain unvested after the vesting period, the Company will purchase all the unvested shares without consideration and cancel the shares thereafter. Restricted shares could be distributed as cash or stock dividends. Employees who are given restricted shares are entitled to partake in the cash injection plan of the Company. The aforementioned new shares are also kept by a trust.

The information of the Company's restricted stock is as follows:

Unit: in thousand shares

	<b>2014</b>
Outstanding units at January 1	-
Granted during the period	<u>1,370</u>
Outstanding units at December 31	<u><u>1,370</u></u>

The fair value of the Company's restricted shares was 11.8 dollars per share, which was the closing price at the effective date. The Company recognized an increase in capital surplus-restricted shares amounting to \$2,466. As of December 31, 2014, the unearned employee benefit was \$14,886.

The compensation cost related to the restricted stock amounted to \$1,280 for the year ended December 31, 2014.

(Continued)

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

**Notes to Consolidated Financial Statements**

(p) Earnings per share

1. Basic earnings per share

Earnings per share for the years ended December 31, 2014 and 2013, was computed as follows:

	2014	2013
<b>Basic net income per share:</b>		
Net income	\$ <u>613</u>	<u>(18,084)</u>
Weighted-average number of shares outstanding (thousands)	<u>52,471</u>	<u>51,707</u>
Basic earnings (loss) per share (dollars)	\$ <u>0.01</u>	<u>(0.35)</u>
<b>Diluted earnings per share:</b>		
Weighted-average number of shares outstanding (thousands)	52,471	
Effects of dilutive potential common stock:		
Effect of restricted employee shares unvested	<u>10</u>	
Weighted-average number of shares outstanding (thousands)	<u>52,481</u>	
Diluted earnings per share (dollars)	\$ <u>0.01</u>	

(q) Financial Instruments

1. Categories of financial instruments

	December 31, 2014	December 31, 2013
<b>Financial assets</b>		
Cash and cash equivalents	\$ 171,885	487,711
Current financial assets at fair value through profit or loss	313	69
Notes and accounts receivable, net	62,056	85,831
Other receivables	2,006	407
Restricted cash in banks	133	133
Refundable deposits	<u>5,880</u>	<u>6,266</u>
Total	\$ <u>242,273</u>	<u>580,417</u>
<b>Financial liabilities</b>		
Short-term borrowings	\$ 40,000	-
Notes and accounts payable	66,840	90,299
Other payables	47,999	58,190
Guarantee deposits	<u>945</u>	<u>35</u>
Total	\$ <u>155,784</u>	<u>148,524</u>

(Continued)

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

**Notes to Consolidated Financial Statements**

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, 2014 and 2013, the maximum amount exposed to credit risk amounted to \$242,273 and \$580,417, respectively.

3. Liquidity Risk

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

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
<b>December 31, 2014</b>				
Non-derivative financial liabilities:				
Sort-term borrowings	\$ 40,000	(40,000)	(40,000)	-
Notes and accounts payable	66,840	(66,840)	(66,840)	-
Other payables	47,999	(47,999)	(47,999)	-
Guarantee deposits	945	(945)	-	(945)
	<u>\$ 155,784</u>	<u>(155,784)</u>	<u>(154,839)</u>	<u>(945)</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	35	(35)	-	(35)
	<u>\$ 148,524</u>	<u>(148,524)</u>	<u>(148,489)</u>	<u>(35)</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 were as follow:

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	December 31, 2014			December 31, 2013		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	\$691	USD/TWD=31.65	21,873	4,399	USD/TWD=29.805	131,111
USD	175	USD/CNY=6.2156	5,527	212	USD/CNY=6.0592	6,329
USD	1,125	USD/EUR=1.2155	35,618	29	USD/EUR=1.3786	850
EUR	48	EUR/TWD=38.47	1,845	558	EUR/TWD=41.09	22,932
Financial liabilities						
Monetary items						
USD	1,455	USD/TWD=31.65	46,063	777	USD/TWD=29.805	23,154
USD	456	USD/EUR=1.2155	14,437	1,633	USD/EUR=1.3786	48,685

## (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, notes and accounts receivable, other receivables, short-term borrowings, notes and accounts payable trade and other payables that are denominated in foreign currency.

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

A weakening (strengthening) 5% of each foreign currency against the functional currency on December 31, 2014 and 2013 would have affected the net profit before tax as follows:

	December 31, 2014	December 31, 2013
USD (against the TWD)		
Appreciate 5%	\$ (1,210)	5,398
Depreciate 5%	1,210	(5,398)
USD (against the CNY)		
Appreciate 5%	\$ 276	316
Depreciate 5%	(276)	(316)
USD (against the EUR)		
Appreciate 5%	\$ 1,059	2,391
Depreciate 5%	(1,059)	(2,391)
EUR (against the TWD)		
Appreciate 5%	92	1,147
Depreciate 5%	(92)	(1,147)

(Continued)

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

**Notes to Consolidated Financial Statements**

5. Interest Rate analysis

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

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Variable rate instruments (carrying amount):		
Financial assets	\$ 116,908	92,005
Financial liabilities	40,000	-

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 decreased by \$192 for the years ended December 31, 2014 and the net profit before tax would have decreased or increased by \$230 for the years ended December 31, 2013, which would be mainly resulted from the bank savings and short-term borrowings with variable interest rates.

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.

(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).

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>December 31, 2014</b>				
Financial assets at fair value through profit or loss	\$ <u>-</u>	<u>313</u>	<u>-</u>	<u>313</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>

There were no transfers from one level to another in the years ended December 31, 2014 and 2013.

## (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.

## (r) 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.

(Continued)

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

**(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.

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

## 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, 2014 and 2013, the unused short-term bank facilities were \$283,650 and \$162,000, 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.

## (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.

## (s) 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.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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, 2014 and 2013, the liability ratio were as follows:

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Total liabilities	\$ 170,288	180,041
Total assets	856,905	915,152
Liability ratio	20%	20%

As of December 31 2014, there were no changes in the Group's approach to capital management during the year ended December 31, 2014.

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

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

## (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>2014</u>	<u>2013</u>
Short-term employee benefits	\$ 10,976	10,253
Post-employment benefits	324	216
	<u>\$ 11,300</u>	<u>10,469</u>

## (8) Pledged Assets

The carrying values of pledged assets were as follows:

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Account	Subject	December 31, 2014	December 31, 2013
Land and buildings	Guarantee for short-term loans and the credit line	\$ 118,352	-
Reserve savings account	Warranty guarantee	<u>133</u>	<u>133</u>
		<u>\$ 118,485</u>	<u>133</u>

(9) Commitments and contingencies: none

(10) Losses due to major disasters: none

(11) Subsequent events: none

(12) Other

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

By item	By function	2014			2013		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits							
Salary		-	92,568	92,568	-	85,955	85,955
Labor and health insurance		-	12,090	12,090	-	11,898	11,898
Pension		-	2,669	2,669	-	3,094	3,094
Others		-	1,142	1,142	-	973	973
Depreciation		1,897	1,660	3,557	4,648	1,449	6,097
Amortization		8,462	530	8,992	8,769	561	9,330

Note: The depreciation in 2014 included the depreciation of investment property amounting to \$986.

(13) Segment information

(a) General Information

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

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (a) Production information

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

<u>Products</u>	<u>2014</u>	<u>2013</u>
LCD monitors	\$ 674,676	617,082
Others accessories	6,407	7,996
Rental revenue	<u>3,289</u>	<u>-</u>
	<u>\$ 684,372</u>	<u>625,078</u>

## (b) 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>2014</u>	<u>2013</u>
Netherlands	\$ 179,437	167,305
Germany	136,957	116,520
United States	52,838	94,304
Others	<u>315,140</u>	<u>246,949</u>
	<u>\$ 684,372</u>	<u>625,078</u>

## 2. Non-current Assets:

<u>Area</u>	<u>2014</u>	<u>2013</u>
Taiwan	\$ 320,622	128,540
Others	<u>8,965</u>	<u>6,616</u>
	<u>\$ 329,587</u>	<u>135,156</u>

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

## (c) Information about majoy customers

<u>Customer:</u>	<u>2014</u>	<u>2013</u>
A Company	\$ <u>114,526</u>	<u>108,628</u>