

**ASSOCIATED INDUSTRIES CHINA, INC.**  
**AND SUBSIDIARIES**  
**Consolidated Financial Statements**  
**December 31, 2015 and 2014**  
**(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, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years ended December 31, 2015 and 2014. 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\$21,723 thousand and NT\$20,692 thousand, constituting 2.51% and 2.41% of the consolidated total assets as of December 31, 2015 and 2014, respectively; and the total revenues amounting to NT\$57,327 thousand and NT\$72,724 thousand, constituting 8.42% and 10.63% of the consolidated total revenues for 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014, on which we have issued modified unqualified opinion.

A handwritten signature in black ink, appearing to read 'KPMG'.

March 15, 2016

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, 2015 and 2014**  
**(expressed in thousands of New Taiwan dollars)**

|   | December 31, 2015 |            | December 31, 2014 |            |
|---|-------------------|------------|-------------------|------------|
|   | Amount            | %          | Amount            | %          |
| <b>Assets</b>   |                   |            |                   |            |
| <b>Current assets:</b>  |                   |            |                   |            |
| Cash and cash equivalents (note 6(a))                                     | \$ 96,716         | 11         | 171,885           | 20         |
| Current financial assets at fair value through profit or loss (note 6(b)) | -                 | -          | 313               | -          |
| Notes and accounts receivable, net (note 6(d))                            | 81,366            | 10         | 62,056            | 7          |
| Other receivables, net (note 6(d))  | 937               | -          | 2,006             | -          |
| Inventories, net (note 6(e))  | 278,384           | 32         | 211,809           | 25         |
| Prepayments   | 10,655            | 1          | 28,408            | 3          |
| Other current assets (note 8)   | 883               | -          | 841               | -          |
|   | <u>468,941</u>    | <u>54</u>  | <u>477,318</u>    | <u>55</u>  |
| <b>Non-current assets:</b>  |                   |            |                   |            |
| Financial assets carried at cost – non-current (note 6(c))                | 80,700            | 9          | 50,000            | 6          |
| Property, plant and equipment (notes 6(f) and 8)                          | 126,122           | 15         | 126,316           | 15         |
| Investment property, net (note 6(g))                                      | 168,382           | 19         | 169,565           | 20         |
| Intangible assets (note 6(h))   | 17,550            | 2          | 27,638            | 3          |
| Other non-current assets  | 4,570             | 1          | 6,068             | 1          |
|   | <u>397,324</u>    | <u>46</u>  | <u>379,587</u>    | <u>45</u>  |
| <b>Total assets</b>   | <b>\$ 866,265</b> | <b>100</b> | <b>856,905</b>    | <b>100</b> |
|   |                   |            |                   |            |
| <b>Liabilities</b>  |                   |            |                   |            |
| <b>Current liabilities:</b>   |                   |            |                   |            |
| Short-term borrowings (note 6(i))   | \$ 173,528        | 20         | 40,000            | 5          |
| Notes and accounts payable  | 63,716            | 7          | 66,840            | 8          |
| Other payables  | 48,309            | 6          | 53,908            | 6          |
| Current provisions (note 6(j))  | 7,678             | 1          | 4,807             | 1          |
| Other current liabilities   | 3,222             | -          | 3,788             | -          |
|   | <u>296,453</u>    | <u>34</u>  | <u>169,343</u>    | <u>20</u>  |
| <b>Non-current liabilities:</b>   |                   |            |                   |            |
| Other non-current liabilities   | 945               | -          | 945               | -          |
|   | <u>945</u>        | <u>-</u>   | <u>945</u>        | <u>-</u>   |
| <b>Total liabilities</b>  | <b>297,398</b>    | <b>34</b>  | <b>170,288</b>    | <b>20</b>  |
|   |                   |            |                   |            |
| <b>Equity: (notes 6(n) (o))</b>   |                   |            |                   |            |
| Ordinary shares   | 535,126           | 62         | 538,406           | 63         |
| Capital surplus   | 22,952            | 3          | 23,452            | 3          |
| Retained earnings:  |                   |            |                   |            |
| Legal reserve   | 51,494            | 6          | 51,433            | 6          |
| Special reserve   | 45,440            | 5          | 45,026            | 5          |
| Unappropriated earnings (accumulated deficits)                            | (20,605)          | (2)        | 88,627            | 10         |
|   | <u>76,329</u>     | <u>9</u>   | <u>185,086</u>    | <u>21</u>  |
| <b>Other equity:</b>  |                   |            |                   |            |
| Exchange differences on translation of foreign financial statements       | (58,095)          | (7)        | (45,441)          | (5)        |
| Unearned employee benefit   | (7,445)           | (1)        | (14,886)          | (2)        |
|   | <u>(65,540)</u>   | <u>(8)</u> | <u>(60,327)</u>   | <u>(7)</u> |
| <b>Total equity</b>   | <b>568,867</b>    | <b>66</b>  | <b>686,617</b>    | <b>80</b>  |
| <b>Total liabilities and equity</b>                                       | <b>\$ 866,265</b> | <b>100</b> | <b>856,905</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, 2015 and 2014**  
 (expressed in thousands of New Taiwan dollars, except earnings per share)

|   | 2015               |             | 2014           |            |
|---|--------------------|-------------|----------------|------------|
|   | Amount             | %           | Amount         | %          |
| <b>Operating revenue</b>  |                    |             |                |            |
| Sales revenue   | \$ 691,942         | 102         | 700,141        | 103        |
| Less : Sales returns and allowances   | 14,451             | 2           | 19,058         | 3          |
| Rental revenue (note (k))   | <u>3,625</u>       | -           | <u>3,289</u>   | -          |
|   | 681,116            | 100         | 684,372        | 100        |
| <b>Cost of sales (notes 6(e) and (k))</b>                                   | <u>529,055</u>     | <u>78</u>   | <u>480,050</u> | <u>70</u>  |
| <b>Gross profit</b>   | <u>152,061</u>     | <u>22</u>   | <u>204,322</u> | <u>30</u>  |
| <b>Operating expenses (note 12) :</b>                                       |                    |             |                |            |
| Selling expenses  | 139,232            | 21          | 115,433        | 17         |
| Administrative expenses   | 63,313             | 9           | 73,723         | 11         |
| Research and development expenses   | <u>8,327</u>       | <u>1</u>    | <u>7,340</u>   | <u>1</u>   |
|   | <u>210,872</u>     | <u>31</u>   | <u>196,496</u> | <u>29</u>  |
| <b>Net operating income (loss)</b>  | <u>(58,811)</u>    | <u>(9)</u>  | <u>7,826</u>   | <u>1</u>   |
| <b>Non-operating income and expenses:</b>                                   |                    |             |                |            |
| Interest income   | 219                | -           | 2,198          | -          |
| Other income  | 80                 | -           | 312            | -          |
| Gains on disposals of property, plant and equipment (note 6(f))             | 2                  | -           | -              | -          |
| Foreign exchange gains (losses), net  | 4,927              | 1           | (9,557)        | (1)        |
| Gains (losses) on financial assets at fair value through profit or loss     | (503)              | -           | 1,049          | -          |
| Interest expense  | <u>(2,050)</u>     | <u>-</u>    | <u>(386)</u>   | <u>-</u>   |
|   | <u>2,675</u>       | <u>1</u>    | <u>(6,384)</u> | <u>(1)</u> |
| <b>Profit (loss) before income tax</b>                                      | <u>(56,136)</u>    | <u>(8)</u>  | <u>1,442</u>   | <u>-</u>   |
| <b>Less: income tax expense (note 6(m))</b>                                 | <u>307</u>         | <u>-</u>    | <u>829</u>     | <u>-</u>   |
| <b>Profit (loss)</b>  | <u>(56,443)</u>    | <u>(8)</u>  | <u>613</u>     | <u>-</u>   |
| <b>Other comprehensive income (loss):</b>                                   |                    |             |                |            |
| <b>Items that may be reclassified subsequently to profit or loss</b>        |                    |             |                |            |
| Other comprehensive income, before tax, exchange differences on translation | <u>(12,654)</u>    | <u>(2)</u>  | <u>(415)</u>   | <u>-</u>   |
|   | <u>(12,654)</u>    | <u>(2)</u>  | <u>(415)</u>   | <u>-</u>   |
| <b>Other comprehensive loss, net</b>  | <u>(12,654)</u>    | <u>(2)</u>  | <u>(415)</u>   | <u>-</u>   |
| <b>Total comprehensive income (loss)</b>                                    | <u>\$ (69,097)</u> | <u>(10)</u> | <u>198</u>     | <u>-</u>   |
| <b>Earnings (loss) per share (note 6(p)):</b>                               |                    |             |                |            |
| Basic earnings (loss) per share   | \$ <u>(1.08)</u>   |             | <u>0.01</u>    |            |
| Diluted earnings per share  |                    |             | \$ <u>0.01</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, 2015 and 2014**

(expressed in thousands of New Taiwan dollars)

|   | Retained earnings |                 |               |                 | Other equity                                   |   | Total equity |
|---|-------------------|-----------------|---------------|-----------------|--|---|--------------|
|   | Ordinary shares   | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings (accumulated deficits) | Exchange differences on translation of foreign financial statements |              |
| <b>Balance on January 1, 2014</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)     |
|   | -                 | -               | -             | -               | 613  | -   | 613          |
| Profit for the year ended December 31, 2014                     | -                 | -               | -             | -               | -  | (415)   | (415)        |
| Other comprehensive loss for the year ended December 31, 2014   | -                 | -               | -             | -               | 613  | (415)   | 198          |
| Total comprehensive income for the year ended December 31, 2014 | 13,700            | 2,466           | -             | -               | -  | -   | 1,280        |
| Share-based payment transactions                                | 538,406           | 23,452          | 51,433        | 45,026          | 88,627   | (45,441)  | 686,617      |
| <b>Balance on December 31, 2014</b>                             |                   |                 |               |                 |  |   |              |
| Appropriation and distribution of retained earnings:            |                   |                 |               |                 |  |   |              |
| Legal reserve appropriated                                      | -                 | -               | 61            | -               | (61)   | -   | -            |
| Special reserve appropriated                                    | -                 | -               | -             | 414             | (414)  | -   | -            |
| Cash dividends  | -                 | -               | -             | -               | (53,841)                                       | -   | (53,841)     |
|   | -                 | -               | 61            | 414             | (54,316)                                       | -   | (53,841)     |
|   | -                 | -               | -             | -               | (56,443)                                       | -   | (56,443)     |
| Loss for the year ended December 31, 2015                       | -                 | -               | -             | -               | -  | (12,654)  | (12,654)     |
| Other comprehensive loss for the year ended December 31, 2015   | -                 | -               | -             | -               | (56,443)                                       | (12,654)  | (69,097)     |
| Total comprehensive loss for the year ended December 31, 2015   | (3,280)           | (500)           | -             | -               | 1,527  | -   | 5,188        |
| Share-based payment transactions                                | 535,126           | 22,952          | 51,494        | 45,440          | (20,605)                                       | (58,095)  | 568,867      |
| <b>Balance on December 31, 2015</b>                             |                   |                 |               |                 |  |   |              |

See accompanying notes to consolidated financial statements.

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

**Consolidated statements of cash flows**

**For the years ended December 31, 2015 and 2014**  
**(expressed in thousands of New Taiwan dollars)**

|  | <u>2015</u>      | <u>2014</u>      |
|--|------------------|------------------|
| <b>Cash flows from (used in) operating activities:</b>           |                  |                  |
| Profit (loss) before income tax                                  | \$ (56,136)      | 1,442            |
| Adjustments:   |                  |                  |
| Depreciation expense   | 3,750            | 3,557            |
| Amortization expense   | 11,935           | 8,992            |
| Provisions (reversal of provision) for bad debt expense          | 58               | (31)             |
| Interest expense   | 2,050            | 386              |
| Interest income  | (219)            | (2,198)          |
| Share-based payments   | 3,661            | 1,280            |
| Gains (losses) on disposal of property, plan and equipment       | (2)              | 21               |
|  | <u>21,233</u>    | <u>12,007</u>    |
| <b>Changes in operating assets and liabilities:</b>              |                  |                  |
| Changes in financial assets at fair value through profit or loss | 313              | (244)            |
| Decrease (increase) in notes and accounts receivable             | (19,368)         | 23,806           |
| Decrease (increase) in other receivables                         | 984              | (1,488)          |
| Decrease (increase) in inventories                               | (66,575)         | (24,994)         |
| Decrease (increase) in prepayment                                | 17,101           | (12,592)         |
| Decrease (increase) in other current assets                      | 89               | 1,711            |
| Decrease (increase) in other operating assets                    | 188              | 531              |
|  | <u>(67,268)</u>  | <u>(13,270)</u>  |
| <b>Changes in operating liabilities:</b>                         |                  |                  |
| Increase (decrease) in notes and accounts payable                | (3,124)          | (23,459)         |
| Increase (decrease) in other payable                             | (4,897)          | (9,213)          |
| Increase (decrease) in provisions                                | 2,850            | (1,432)          |
| Increase (decrease) in other operating liabilities               | (566)            | (1,155)          |
|  | <u>(5,737)</u>   | <u>(35,259)</u>  |
| <b>Total changes in operating assets and liabilities</b>         | <u>(73,005)</u>  | <u>(48,529)</u>  |
| <b>Total adjustments</b>   | <u>(51,772)</u>  | <u>(36,522)</u>  |
| <br>   |                  |                  |
| Cash flows from (used in) operations                             | (107,908)        | (35,080)         |
| Interest received  | 507              | 2,309            |
| Interest paid  | (1,998)          | (357)            |
| Income taxes paid  | (612)            | (16,257)         |
| <b>Net cash flows used in operating activities</b>               | <u>(110,011)</u> | <u>(49,385)</u>  |
| <b>Cash flows from (used in) investing activities:</b>           |                  |                  |
| Acquisition of property, plant and equipment                     | (2,485)          | (3,841)          |
| Proceeds from disposal of property, plant and equipment          | 70               | -                |
| Acquisition of investment property                               | -                | (170,551)        |
| Decrease in refundable deposits                                  | 1,310            | 386              |
| Acquisition of intangible assets                                 | (1,847)          | (32,989)         |
| Acquisition of financial assets carried at cost – noncurrent     | (30,700)         | (50,000)         |
| Increase in other non-current assets                             | (131)            | -                |
| <b>Net cash flows used in investing activities</b>               | <u>(33,783)</u>  | <u>(256,995)</u> |
| <b>Cash flows from (used in) financing activities:</b>           |                  |                  |
| Increase in short-term loans                                     | 133,528          | 40,000           |
| Increase in guarantee deposits                                   | -                | 910              |
| Cash dividends paid  | (53,841)         | (49,972)         |
| Other financing activities                                       | 1,527            | -                |
| <b>Net cash flows from (used in) financing activities</b>        | <u>81,214</u>    | <u>(9,062)</u>   |
| Effect of exchange rate changes on cash and cash equivalents     | (12,589)         | (384)            |
| Net decrease in cash and cash equivalents                        | (75,169)         | (315,826)        |
| Cash and cash equivalents at beginning of period                 | 171,885          | 487,711          |
| Cash and cash equivalents at end of period                       | \$ <u>96,716</u> | <u>171,885</u>   |

See accompanying notes to consolidated financial statements.

# ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars unless otherwise specified)

### (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 equipment, 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 15, 2016.

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

- (a) 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.

The Company adopted the 2013 version of the IFRS endorsed by the FSC (IFRS 9 Financial instruments is excluded) in preparing its 2015 financial statements. The new standards and amendments issued by the International Accounting Standards Board (“IASB”) are 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<br>(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  |
| •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  |

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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 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                |

The Group assessed that the 2013 version of the IFRS will not have any significant impact on its consolidated financial statements except for the following:

## 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 income is also required. The Group is expecting to change the presentation of its comprehensive income statements in accordance with the standard and will retrospectively adjust its 2014 financial statements.

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

The 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> ” | Not yet approved by the IASB   |
| •Amended IFRS 10, IFRS 12 and IFRS 28 “ <i>The application of the investment entities 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, 2018                |
| •IFRS 16 “ <i>Lease</i> ”  | January 1, 2019                |
| •Amended IAS 1 “ <i>Disclosure-Initiative</i> ”  | January 1, 2016                |
| •Amended IAS 7 “ <i>Disclosure-Initiative</i> ”  | January 1, 2017                |
| •Amended IAS 12 “ <i>Recognition of Deferred Tax Assets for Unrealized Losses</i> ”  | January 1, 2017                |
| •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                   |

(Continued)

## 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                |
| • Annual Improvements: 2010-2012 and 2011-2013 cycles                                    | July 1, 2014                   |
| • Annual Improvements to IFRS: 2012-2014 cycles  | January 1, 2016                |
| • 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.

(Continued)

## 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 Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. 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.

Accounting policies of the subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

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. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

##### 2. List of subsidiaries in the consolidated financial statements.

| Name of investor    | Name of subsidiary  | Principal activity                         | Shareholding      |                   |
|---------------------|---|--|-------------------|-------------------|
|                     |   |  | December 31, 2015 | December 31, 2014 |
| 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 and medical equipment | 100%              | 100%              |

(Continued)

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

## (d) Foreign currencies

## 1. Foreign currency transactions

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

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.

(Continued)

**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, available-for-sale financial assets, 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.

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.

(Continued)

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

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) 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.

**(j) 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. Subsequent cost**

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

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****3. Depreciation**

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

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable 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.

**4. 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.

**(k) 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.

(Continued)

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

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.

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

(I) 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.

(Continued)

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

## 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.

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.

## (m) 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.

(Continued)

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

**(o) 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.

(Continued)

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

**(q) 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.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities over the period that the employees become unconditionally entitled to the payment. The liability is re-measured at each reporting date and settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

**(r) Income taxes**

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

(Continued)

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

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

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

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

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

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

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

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.

(Continued)



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

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

(s) 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.

(t) 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.

**(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.

Also, there are no assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year except for the valuation of inventories. Please refer to note 6(e).

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (6) Explanation of significant accounts

## (a) Cash and cash equivalents

|   | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|---|--------------------------|--------------------------|
| Petty cash, checking accounts and demand deposits | \$ 93,305                | 128,249                  |
| Time deposits                                     | <u>3,411</u>             | <u>43,636</u>            |
|   | <u>\$ 96,716</u>         | <u>171,885</u>           |

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

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

|   | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|---|--------------------------|--------------------------|
| <b>Financial assets at fair value through profit or loss:</b> |                          |                          |
| Financial assets held for trading:                            |                          |                          |
| Derivative instruments not used for hedging                   | \$ <u>-</u>              | <u>313</u>               |

The Group uses derivative financial instruments to hedge certain foreign exchange risk the Group is exposed to arising from its operating activities. The Group held the following derivative financial instruments not designated as hedging instruments presented as held-for-trading financial assets as of December 31, 2014:

|   | <u>December 31, 2014</u>                  |                 |                      |
|---|---|-----------------|----------------------|
|   | <u>Contract amount<br/>(in thousands)</u> | <u>Currency</u> | <u>Maturity date</u> |
| <b>Financial assets:</b>                |   |                 |                      |
| Forward foreign exchange contracts sold | EUR <u>337</u>                            | EUR to USD      | 2015.2.26            |

## (c) Financial assets carried at cost – non-current

|   | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|---|--------------------------|--------------------------|
| Common stock unlisted on domestic markets   | \$ 50,000                | 50,000                   |
| Preferred stock unlisted on foreign markets | <u>30,700</u>            | <u>-</u>                 |
|   | <u>\$ 80,700</u>         | <u>50,000</u>            |

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

**Notes to Consolidated Financial Statements**

The Group purchased the preferred stock issued by IRONYUN INCORPORATED amounting to US\$1,000 thousands (NT\$30,700), which was accounted for 6.02% of IRONYUN INCORPORATED's preferred stock in May 2015.

The Group purchased the common stock issued by Taiwan Biophotonic Corporation amounting to \$50,000 in September 2014. As of December 31, 2015 and 2014, both percentages of ownership were 19.23%.

The aforementioned common stock and preferred stock unlisted on domestic and foreign markets, respectively, held by the Group are measured at cost, less, accumulated impairment losses on the reporting date. The fair values of these investments cannot be measured reliably because the range of reasonable fair value estimates is large and the probabilities for each estimate cannot be reasonably determined.

As of December 31, 2015 and 2014, the Group did not provide any financial assets carried at cost – non-current as collaterals for its loans.

(d) Notes and accounts receivable and other receivables

|                                     | <u>December 31,</u><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|-------------------------------------|------------------------------------|------------------------------------|
| Notes receivable                    | \$ 550                             | 78                                 |
| Accounts receivable                 | 81,277                             | 62,895                             |
| Other receivables                   | <u>937</u>                         | <u>2,006</u>                       |
|                                     | 82,764                             | 64,979                             |
| Less: allowance for impairment loss | (115)                              | (57)                               |
| Allowance for sales discounts       | <u>(346)</u>                       | <u>(860)</u>                       |
|                                     | <u>\$ 82,303</u>                   | <u>64,062</u>                      |
| Notes and account receivable, net   | <u>\$ 81,366</u>                   | <u>62,056</u>                      |
| Other receivables                   | <u>\$ 937</u>                      | <u>2,006</u>                       |

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

|                         | <u>December 31,</u><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|-------------------------|------------------------------------|------------------------------------|
| Not past due            | \$ 64,689                          | 57,003                             |
| Past due 1 to 30 days   | 17,521                             | 7,976                              |
| Past due 31 to 90 days  | 371                                | -                                  |
| Past due 91 to 180 days | <u>183</u>                         | <u>-</u>                           |
|                         | <u>\$ 82,764</u>                   | <u>64,979</u>                      |

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The change in the allowance for notes and accounts receivable and other receivables for the years ended December 31, 2015 and 2014 were as follows:

|                              | <u>Individually<br/>assessed impairment</u> | <u>Collectively<br/>assessed impairment</u> | <u>Total</u> |
|------------------------------|---|---|--------------|
| Balance on January 1, 2015   | \$ -  | 57  | 57           |
| Impairment loss recognized   | <u>-</u>                                    | <u>58</u>                                   | <u>58</u>    |
| Balance on December 31, 2015 | <u>\$ -</u>                                 | <u>115</u>                                  | <u>115</u>   |

  

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

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

## (e) Inventories

|                       | <u>December 31,<br/>2015</u> | <u>December 31,<br/>2014</u> |
|-----------------------|------------------------------|------------------------------|
| Merchandise inventory | \$ <u>278,384</u>            | <u>211,809</u>               |

The details of cost of sales for the years ended December 31, 2015 and 2014, were as follows:

|   | <u>2015</u>       | <u>2014</u>    |
|---|-------------------|----------------|
| Cost of goods sold and expenses           | \$ 519,778        | 477,441        |
| Inventory valuation loss and obsolescence | <u>7,703</u>      | <u>1,290</u>   |
|   | <u>\$ 527,481</u> | <u>478,731</u> |

As of December 31, 2015 and 2014, the Group did not provide any inventories as collaterals for its loans.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (f) Property, plant and equipment

1. The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2015 and 2014 were as follows:

|                                       | <u>Land</u>      | <u>Buildings<br/>and building<br/>improvement</u> | <u>Machinery<br/>and R&amp;D<br/>equipment</u> | <u>Molding<br/>equipment<br/>and other<br/>equipment</u> | <u>Total</u>   |
|---------------------------------------|------------------|---|--|--|----------------|
| <b>Cost:</b>                          |                  |   |  |  |                |
| Balance on January 1, 2015            | \$ 95,104        | 28,416  | 2,872  | 19,615   | 146,007        |
| Additions                             | -                | -   | 2,045  | 440  | 2,485          |
| Disposal and derecognitions           | -                | -   | (70)   | -  | (70)           |
| Effect of movements in exchange rates | -                | -   | 79   | (550)  | (471)          |
| Balance on December 31, 2015          | <u>\$ 95,104</u> | <u>28,416</u>                                     | <u>4,926</u>                                   | <u>19,505</u>  | <u>147,951</u> |
| 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> |
| <b>Depreciation:</b>                  |                  |   |  |  |                |
| Balance on January 1, 2015            | \$ -             | 1,505   | 211  | 17,975   | 19,691         |
| Depreciation for the year             | -                | 907   | 1,038  | 622  | 2,567          |
| Disposal and derecognitions           | -                | -   | (2)  | -  | (2)            |
| Effect of movements in exchange rates | -                | -   | 23   | (450)  | (427)          |
| Balance on December 31, 2015          | <u>\$ -</u>      | <u>2,412</u>                                      | <u>1,270</u>                                   | <u>18,147</u>  | <u>21,829</u>  |
| 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>  |
| <b>Carrying amounts:</b>              |                  |   |  |  |                |
| Balance on December 31, 2015          | <u>\$ 95,104</u> | <u>26,004</u>                                     | <u>3,656</u>                                   | <u>1,358</u>   | <u>126,122</u> |
| Balance on January 1, 2014            | <u>\$ 95,104</u> | <u>27,582</u>                                     | <u>727</u>                                     | <u>1,648</u>   | <u>125,061</u> |
| 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> |

As of December 31, 2015, and 2014, 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.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

|                                  | <u>Land</u>       | <u>Buildings and<br/>construction</u> | <u>Total</u>      |
|----------------------------------|-------------------|---------------------------------------|-------------------|
| <b>Cost:</b>                     |                   |                                       |                   |
| Balance on January 1, 2015       | \$ 111,400        | 59,151                                | 170,551           |
| Additions                        | <u>-</u>          | <u>-</u>                              | <u>-</u>          |
| Balance on December 31, 2015     | \$ <u>111,400</u> | <u>59,151</u>                         | <u>170,551</u>    |
| Balance on January 1, 2014       | \$ -              | -                                     | -                 |
| Additions                        | <u>111,400</u>    | <u>59,151</u>                         | <u>170,551</u>    |
| Balance on December 31, 2014     | \$ <u>111,400</u> | <u>59,151</u>                         | <u>170,551</u>    |
| <b>Accumulated depreciation:</b> |                   |                                       |                   |
| Balance on January 1, 2015       | \$ -              | 986                                   | 986               |
| Depreciation for the year        | <u>-</u>          | <u>1,183</u>                          | <u>1,183</u>      |
| Balance on December 31, 2015     | \$ <u>-</u>       | <u>2,169</u>                          | <u>2,169</u>      |
| 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>986</u>                            | <u>986</u>        |
| <b>Carrying amount:</b>          |                   |                                       |                   |
| Balance on December 31, 2015     | \$ <u>111,400</u> | <u>56,982</u>                         | <u>168,382</u>    |
| Balance on December 31, 2014     | \$ <u>111,400</u> | <u>58,165</u>                         | <u>169,565</u>    |
| <b>Fair value:</b>               |                   |                                       |                   |
| Balance on December 31, 2015     |                   |                                       | \$ <u>166,955</u> |
| Balance on December 31, 2014     |                   |                                       | \$ <u>170,551</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, 2015, the investment property has been pledged as collateral for short term borrowings and credits. Please refer to note 8.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (h) Intangible Assets

|                                  | <u>Product<br/>Development<br/>expense</u> | <u>Computer<br/>software<br/>and others</u> | <u>Total</u>  |
|----------------------------------|--|---|---------------|
| <b>Cost:</b>                     |  |   |               |
| Balance on January 1, 2015       | \$ 26,862                                  | 12,278                                      | 39,140        |
| Additions                        | -  | 1,847                                       | 1,847         |
| Disposals                        | -  | (8,566)                                     | (8,566)       |
| Balance on December 31, 2015     | <u>\$ 26,862</u>                           | <u>5,559</u>                                | <u>32,421</u> |
| Balance on January 1, 2014       | \$ -                                       | 17,498                                      | 17,498        |
| Additions                        | 26,862                                     | 6,127                                       | 32,989        |
| Disposals                        | -  | (11,347)                                    | (11,347)      |
| Balance on December 31, 2014     | <u>\$ 26,862</u>                           | <u>12,278</u>                               | <u>39,140</u> |
| <b>Accumulated amortization:</b> |  |   |               |
| Balance on January 1, 2015       | \$ 2,400                                   | 9,102                                       | 11,502        |
| Amortization for the period      | 8,954                                      | 2,981                                       | 11,935        |
| Disposals                        | -  | (8,566)                                     | (8,566)       |
| Balance on December 31, 2015     | <u>\$ 11,354</u>                           | <u>3,517</u>                                | <u>14,871</u> |
| 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> |
| <b>Carrying amount:</b>          |  |   |               |
| Balance on December 31, 2015     | <u>\$ 15,508</u>                           | <u>2,042</u>                                | <u>17,550</u> |
| Balance on January 1, 2014       | <u>\$ -</u>                                | <u>3,641</u>                                | <u>3,641</u>  |
| Balance on December 31, 2014     | <u>\$ 24,462</u>                           | <u>3,176</u>                                | <u>27,638</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, 2015 and 2014, the Group did not provide any intangible assets as collaterals for its loans.

## (i) Short-term borrowings

|   | <u>December 31,<br/>2015</u> | <u>December 31,<br/>2014</u> |
|---|------------------------------|------------------------------|
| Unsecured bank loans                          | \$ 10,000                    | 15,000                       |
| Secured bank loans                            | 163,528                      | 25,000                       |
| Total   | <u>\$ 173,528</u>            | <u>40,000</u>                |
| Unused credit lines for short-term borrowings | <u>\$ 301,297</u>            | <u>283,650</u>               |
| Annual interest rates                         | <u>1.10%~2.00%</u>           | <u>1.94%~2.00%</u>           |

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

**Notes to Consolidated Financial Statements**

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

The Group provided property, plant and equipment and investments property as collaterals for its bank loans. Please refer to note 8.

(j) Provisions

|                                       | <u>Warranty</u> |
|---------------------------------------|-----------------|
| Balance on January 1, 2015            | \$ 4,807        |
| Provisions made during the period     | 5,951           |
| Provisions used during the period     | (3,101)         |
| Effect of movements in exchange rates | 21              |
| Balance on December 31, 2015          | \$ <u>7,678</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 | 25              |
| Balance on December 31, 2014          | \$ <u>4,807</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><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|----------------------------|------------------------------------|------------------------------------|
| Less than one year         | \$ 8,754                           | 7,151                              |
| Between one and five years | <u>7,616</u>                       | <u>10,064</u>                      |
|                            | \$ <u>16,370</u>                   | <u>17,215</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.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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, 2015 and 2014, expenses recognized in profit or loss with respect to operating leases amounted to \$13,465 and \$12,855, respectively.

## 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><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|----------------------------|------------------------------------|------------------------------------|
| Less than one year         | \$ 3,672                           | 3,625                              |
| Between one and five years | <u>761</u>                         | <u>4,380</u>                       |
|                            | <u>\$ 4,433</u>                    | <u>8,005</u>                       |

For the years ended December 31, 2015 and 2014, the rentals recognized in operating revenue amounted to \$3,625 and \$3,289, respectively; the direct costs incurred in rental, which were recognized as operating costs, amounted to \$1,574 and \$1,319, respectively.

## (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 \$2,623 and \$2,669 for the years ended December 31, 2015 and 2014, respectively. Payment was made to the Bureau of Labour Insurance.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (m) Income taxes

## 1. Income tax expenses

(i) The amount of income tax for the years ended December 31, 2015 and 2014 was as follows:

|   | <u>2015</u>          | <u>2014</u>       |
|---|----------------------|-------------------|
| Current tax expense                               |                      |                   |
| Current period                                    | \$ <u>307</u>        | <u>298</u>        |
|   | 307                  | 298               |
| Deferred tax expense                              |                      |                   |
| Origination and reversal of temporary differences | <u>-</u>             | <u>531</u>        |
|   | <u>-</u>             | <u>531</u>        |
| Total income tax expenses                         | \$ <u><u>307</u></u> | <u><u>829</u></u> |

(ii) Reconciliation of income tax and profit (loss) before tax for 2015 and 2014 are as follows:

|   | <u>2015</u>          | <u>2014</u>       |
|---|----------------------|-------------------|
| Profit (loss) excluding income tax                                    | \$ <u>(56,136)</u>   | <u>1,442</u>      |
| Income tax using the Company's domestic tax rate                      | (9,543)              | 245               |
| Effect of tax rates in foreign jurisdiction                           | (366)                | 408               |
| Recognition of previously unrecognized tax losses                     | -                    | (1,233)           |
| Deferred tax assets unrecognized in respect of the current tax losses | 7,345                | 54                |
| Recognition of previously unrecognized temporary differences          | 7,024                | -                 |
| Under (over) provision in prior periods                               | (308)                | -                 |
| Other   | <u>(3,845)</u>       | <u>1,355</u>      |
|   | \$ <u><u>307</u></u> | <u><u>829</u></u> |

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 2. Deferred tax assets

## (i) Unrecognized deferred tax assets

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

|  | <u>December 31,</u><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|--|------------------------------------|------------------------------------|
| Deductible temporary differences                               | \$ 82,725                          | 75,701                             |
| Tax losses   | 188,959                            | 244,142                            |
| Foreign currency translation differences of foreign operations | <u>9,876</u>                       | <u>7,725</u>                       |
|  | <u>\$ 281,560</u>                  | <u>327,568</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, 2015 and 2014. 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, 2015, were as follows:

| <u>Year of loss</u> | <u>Unused tax credits</u> | <u>Expiry year</u> | <u>Remark</u> |
|---------------------|---------------------------|--------------------|---------------|
| 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                | 66,771                    | 2024               | (estimated)   |
| 2015                | <u>25,105</u>             | 2025               | (estimated)   |
|                     | <u>\$ 415,730</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, 2015, AG Neovo USA had unused net operating loss of about US\$8,980 thousands and US\$1,909 thousands 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, 2015, AG Neovo B.V. had unused net operating loss of about EUR\$1,743 thousands, which can be carried forward through 2024.

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

Changes in the amount of deferred tax assets for 2015 and 2014 were as follows:

|                                | <u>Defined<br/>Benefit Plans</u> | <u>Foreign currency<br/>translation<br/>adjustment</u> | <u>Others</u> | <u>Total</u> |
|--------------------------------|----------------------------------|--|---------------|--------------|
| Deferred tax assets:           |                                  |  |               |              |
| Balance on January 1, 2015     | \$ -                             | -  | -             | -            |
| Recognized in profit or (loss) | <u>-</u>                         | <u>-</u>   | <u>-</u>      | <u>-</u>     |
| Balance on December 31, 2015   | \$ <u>-</u>                      | <u>-</u>   | <u>-</u>      | <u>-</u>     |
| Balance on January 1, 2014     | \$ -                             | -  | 543           | 543          |
| Recognized in profit or (loss) | <u>-</u>                         | <u>-</u>   | <u>(543)</u>  | <u>(543)</u> |
| Balance on December 31, 2014   | \$ <u>-</u>                      | <u>-</u>   | <u>-</u>      | <u>-</u>     |

- The ROC tax authorities have examined the Company's income tax returns through 2013.
- Information related to the unappropriated earnings and tax deduction ratio was summarized below:

|  | <u>December 31,<br/>2015</u> | <u>December 31,<br/>2014</u> |
|--|------------------------------|------------------------------|
| Unappropriated earnings (accumulated deficits) of 1998 and after | \$ <u>(20,605)</u>           | <u>88,627</u>                |
| Balance of imputation credit account                             | \$ <u>4,096</u>              | <u>10,129</u>                |

|   | <u>2015 (Estimated)</u> | <u>2014 (Actual)</u> |
|---|-------------------------|----------------------|
| Creditable ratio for earnings distribution to ROC residents | <u>- %</u>              | <u>11.43%</u>        |

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## (n) Capital and other equities

As of December 31, 2015 and 2014, the authorized common stocks were all 2,000,000 with a par value of 10 New Taiwan dollars per share, and of which 53,513 and 53,841 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

## 1. Ordinary shares

Reconciliation of shares outstanding for 2015 and 2014 were as follows:

|  | <u>Ordinary shares</u> |                      |
|--|------------------------|----------------------|
|  | <u>2015</u>            | <u>2014</u>          |
| (in thousands of shares)                       |                        |                      |
| Balance on January 1                           | 53,841                 | 49,972               |
| Shares dividends distributed to shareholders   | -                      | 2,499                |
| Issuance of new restricted employee shares     | 126                    | 1,370                |
| Cancellation of new restricted employee shares | <u>(454)</u>           | <u>-</u>             |
| Balance on December 31                         | <u><u>53,513</u></u>   | <u><u>53,841</u></u> |

Based on the resolution approved at the annual stockholders' meeting held on June 17, 2015, the Company declared a NT\$1 cash dividend per share, which amounted to \$53,841.

Based on the resolution of the annual stockholders' meeting held on June 25, 2014, the Company declared a NT\$1 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.

454 thousand shares of employee restricted shares were cancelled in 2015 as certain employees of the Company did not meet the vesting requirements, and the cancellation procedure had been completed.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 2. Capital surplus

The balances of capital surplus were as follows:

|                            | <u>December 31,</u><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|----------------------------|------------------------------------|------------------------------------|
| Additional paid-in capital | \$ 20,986                          | 20,986                             |
| Restricted employee shares | 1,596                              | 2,466                              |
| Employee stock options     | <u>370</u>                         | <u>-</u>                           |
|                            | <u>\$ 22,952</u>                   | <u>23,452</u>                      |

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.

## 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:

- (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.

According to the Company Act which was amended in May 2015, employee bonuses and directors' and supervisors' remuneration are no longer subject to earnings distribution, and the Company will make all the necessary changes to its articles of association before the deadline specified by the authorities.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (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, 2015 and 2014 are \$45,440 and \$45,026, respectively.

## (iii) Earnings distribution

For the year ended December 31, 2014, the Company did not accrued and recognized the employee bonuses and directors' and supervisors' remuneration.

Based on the resolutions of the annual stockholders' meetings held on June 17, 2015 and June 25, 2014, the appropriations of dividends from the distributable retained earnings of 2014 and 2013 were as follows:

|   | <u>2014</u>      | <u>2013</u>   |
|---|------------------|---------------|
| Dividends distributed to common shareholders: |                  |               |
| Cash  | \$ 53,841        | 49,972        |
| Shares  | -                | <u>24,986</u> |
|   | <u>\$ 53,841</u> | <u>74,958</u> |

There was no difference between the actual distribution and the estimation in the 2014 and 2013 financial statements. The related information about earnings distribution can be accessed from the Market observation Post System after the annual stockholders' meeting.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 4. Other Equity (net taxes)

|   | <b>Foreign exchange<br/>differences arising<br/>from<br/><u>foreign operation</u></b> |
|---|---|
| <b>Balance on January 1, 2015</b>   | \$ (45,441)   |
| Shares of foreign exchange differences on<br>subsidiaries accounted for using equity method | <u>(12,654)</u>   |
| <b>Balance on December 31, 2015</b>   | \$ <u><b>(58,095)</b></u>   |
| <b>Balance on January 1, 2014</b>   | \$ (45,026)   |
| Shares of foreign exchange differences on<br>subsidiaries accounted for using equity method | <u>(415)</u>  |
| <b>Balance on December 31, 2014</b>   | \$ <u><b>(45,441)</b></u>   |

## (o) Share-based payment

## 1. Restricted employee shares

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. At the meeting held on August 11, 2015, the board of directors decided to issue the second restricted shares of 126 thousand shares, and the effective date of the share issuance was on September 11, 2015.

1,370 thousand shares and 126 thousand shares of the aforementioned restricted shares were issued without consideration. 20%, 20%, 30% and 30% of the 1,370 thousand restricted shares and 126 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.

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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. If the employees of the Company fail to meet the vesting requirements, the cash or stock dividends will be withdrawn in the form of cash, and a shares cancellation procedure will be performed. However, if employees are able to meet such requirements, the cash or stock dividends will be paid to individual accounts from the trust.

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

Unit: in thousand shares

|                                  | <u>2015</u>         | <u>2014</u>         |
|----------------------------------|---------------------|---------------------|
| Outstanding units at January 1   | 1,370               | -                   |
| Granted during the period        | 126                 | 1,370               |
| Forfeited during the period      | <u>(454)</u>        | <u>-</u>            |
| Outstanding units at December 31 | <u><u>1,042</u></u> | <u><u>1,370</u></u> |

As of December 31, 2015 and 2014, the unearned employee benefits were \$7,445 and \$14,886, respectively.

The compensation cost related to restricted stock amounted to \$3,291 and \$1,280 in 2015 and 2014, respectively.

The restricted shares, which were distributed as cash dividends, were withdrawn by the Company amounting to \$1,527, and recorded under retained earnings in 2015 as certain employees of the Company did not meet the vesting requirements.

## 2. Employee stock options

At the meeting held on May 6, 2015, the Company's board of directors decided to issue employee stock options of 1,850 units, with an exercisable right of 1,000 shares of the Company's common stock per unit. The total options issued were 1,850,000 shares, and the issuance date was on November 5, 2015. The information on total options issued was as follows:

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

|                                   | <u>2015</u>                            |  |
|-----------------------------------|--|--|
|                                   | <u>Shares</u><br><u>(in thousands)</u> | <u>Weighted-</u><br><u>average</u><br><u>exercise price</u><br><u>(NT dollars)</u> |
| Outstanding shares on January 1   | -                                      | \$ -   |
| Granted during the year           | 1,850                                  | 10.00  |
| Exercised during the year         | -                                      | -  |
| Forfeited during the year         | -                                      | -  |
| Outstanding shares on December 31 | <u>1,850</u>                           | \$ 10.00   |
| Exercisable shares on December 31 | <u>-</u>                               | \$ -   |

As of December 31, 2015, the weighted-average remaining contractual life of the outstanding stock options was 3.83 years.

The issuance terms of the stock options are as follows:

- (i) Exercise price: NT\$10 per share.
- (ii) Exercisable duration: The employees who received stock options that exceed 2 years can exercise a specific percentage in each period as below. The exercisable duration of the options is 4 years. No transfer is allowed except for inheritance. After the expiration of the exercisable duration, the Company will retire the unexercised options and the employees can no longer exercise their rights.

| <u>Period to exercise options</u> | <u>Exercisable percentage (cumulative)</u> |
|-----------------------------------|--|
| 2 years after options received    | 50%  |
| 3 years after options received    | 100%                                       |

- (iii) Exercise method: The Company will issue new shares when the options are exercised.

The Company adopted the Binomial options pricing model to compute the fair value on the grant date, and the assumptions are summarized as follows:

|  |         |
|--|---------|
| Exercise price (TWD)                         | 10.00   |
| Current price (TWD)                          | 9.46    |
| Expected dividend yield rate                 | 0%      |
| Expected volatility                          | 41.50%  |
| Risk-free interest rate                      | 0.66%   |
| Expected life of the option                  | 4 years |
| The weighted average fair value (TWD / unit) | 2.89    |

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The compensation cost related to employee stock options amounted to \$370 in 2015. As of December 31, 2015, the capital surplus related to employee stock options was \$370.

## (p) Earnings (loss) per share

Basic earnings (loss) per share and diluted earnings per share for the years ended December 31, 2015 and 2014, was computed as follows:

|   | <u>2015</u>        | <u>2014</u>    |
|---|--------------------|----------------|
| <b>Basic net income (loss) per share:</b>                 |                    |                |
| Net income (loss)   | \$ <u>(56,443)</u> | <u>613</u>     |
| Weighted-average number of shares outstanding (thousands) | <u>52,471</u>      | <u>52,471</u>  |
| Basic earnings (loss) per share (dollars)                 | \$ <u>(1.08)</u>   | <u>0.01</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) Remuneration to employees, and directors and supervisors

According to the Company's articles approved by the board of directors but yet to be approved in the stockholders' meeting, if there is annual net income, the Company should appropriate no less than 10% as remuneration to employees and no more than 2% as remuneration to directors and supervisors. If the company has accumulated deficits, the after-tax earning shall first be offset against any deficit.

For the year ended December 31, 2015, the Company had accumulated deficits, thus, no remuneration to employees, and directors and supervisors were recognized.

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (r) Financial Instruments

## 1. Credit risk

## (i) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2015 and 2014, the maximum amount exposed to credit risk amounted to \$259,983 and \$286,393, respectively.

## (ii) Concentration to credit risk

Because the Group caters to a wide variety of customers, has a diverse market distribution, and does not concentrate its transaction significantly with single customer. Therefore, the concentrating of credit risk of accounts receivable was not significant. In order to reduce the credit risk, the Group monitors the financial conditions of its customers regularly. However, the Group does not require its customers to provide any collateral.

## 2. Liquidity Risk

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

|                                       | <u>Carrying<br/>amount</u> | <u>Contractual<br/>cash flows</u> | <u>Within a year</u> | <u>Over 1 years</u> |
|---------------------------------------|----------------------------|-----------------------------------|----------------------|---------------------|
| <b>December 31, 2015</b>              |                            |                                   |                      |                     |
| Non-derivative financial liabilities: |                            |                                   |                      |                     |
| Short-term borrowings                 | \$ 173,528                 | (173,528)                         | (173,528)            | -                   |
| Notes and accounts payable            | 63,716                     | (63,716)                          | (63,716)             | -                   |
| Other payables                        | 42,293                     | (42,293)                          | (42,293)             | -                   |
| Guarantee deposits                    | 945                        | (945)                             | -                    | (945)               |
|                                       | <u>\$ 280,482</u>          | <u>(280,482)</u>                  | <u>(279,537)</u>     | <u>(945)</u>        |
| <b>December 31, 2014</b>              |                            |                                   |                      |                     |
| Non-derivative financial liabilities: |                            |                                   |                      |                     |
| Short-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>        |

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## 3. Currency risk

## (i) Exposure to foreign currency risk

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

|                       | December 31, 2015   |                  |        | December 31, 2014   |                  |        |
|-----------------------|---------------------|------------------|--------|---------------------|------------------|--------|
|                       | Foreign<br>currency | Exchange<br>rate | TWD    | Foreign<br>currency | Exchange<br>rate | TWD    |
| Financial assets      |                     |                  |        |                     |                  |        |
| Monetary items        |                     |                  |        |                     |                  |        |
| USD                   | \$ 224              | USD/TWD=32.8250  | 7,357  | 691                 | USD/TWD=31.6500  | 21,873 |
| USD                   | 12                  | USD/CNY=6.5716   | 387    | 175                 | USD/CNY=6.2156   | 5,527  |
| USD                   | 88                  | USD/EUR=1.0931   | 2,897  | 1,125               | USD/EUR=1.2155   | 35,618 |
| EUR                   | 8                   | EUR/TWD=35.8800  | 285    | 48                  | EUR/TWD=38.4700  | 1,845  |
| CNY                   | 179                 | CNY/TWD=4.9950   | 892    | 8,119               | CNY/TWD=5.0920   | 41,344 |
| Financial liabilities |                     |                  |        |                     |                  |        |
| Monetary items        |                     |                  |        |                     |                  |        |
| USD                   | 824                 | USD/TWD=32.8250  | 27,057 | 1,455               | USD/TWD=31.6500  | 46,063 |
| USD                   | 540                 | USD/EUR=1.0931   | 17,745 | 456                 | USD/EUR=1.2155   | 14,437 |

## (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.

A weakening (strengthening) 5% of each foreign currency against the functional currency on December 31, 2015 and 2014 would have affected the net profit (loss) before tax as follows:

|                       | December 31, 2015 | December 31, 2014 |
|-----------------------|-------------------|-------------------|
| USD (against the TWD) |                   |                   |
| Appreciate 5%         | \$ (985)          | (1,210)           |
| Depreciate 5%         | 985               | 1,210             |
| USD (against the CNY) |                   |                   |
| Appreciate 5%         | 19                | 276               |
| Depreciate 5%         | (19)              | (276)             |

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

|                       | <u>December 31, 2015</u> | <u>December 31, 2014</u> |
|-----------------------|--------------------------|--------------------------|
| USD (against the EUR) |                          |                          |
| Appreciate 5%         | (742)                    | 1,059                    |
| Depreciate 5%         | 742                      | (1,059)                  |
| EUR (against the TWD) |                          |                          |
| Appreciate 5%         | 14                       | 92                       |
| Depreciate 5%         | (14)                     | (92)                     |
| CNY (against the TWD) |                          |                          |
| Appreciate 5%         | 45                       | 2,067                    |
| Depreciate 5%         | (45)                     | (2,067)                  |

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

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount for disclosure. In 2015 and 2014, the foreign exchange gains (losses), including both realized and unrealized, amounted to \$4,927 and \$(9,557), respectively.

#### 4. Interest rate analysis

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

|  | <u>December 31,</u><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|--|------------------------------------|------------------------------------|
| Variable rate instruments (carrying amount): |                                    |                                    |
| Financial assets                             | \$ 72,413                          | 116,908                            |
| Financial liabilities                        | 173,528                            | 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.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

If the interest rate had increased or decreased by 0.25%, the net loss before tax would have increased or decreased by \$253 for the years ended December 31, 2015 and the net profit before tax would have decreased or increased by \$192 for the years ended December 31, 2014, which would be mainly resulted from the bank savings and short-term borrowings with variable interest rates.

## 5. Fair value

## (i) Types of financial instruments and fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It shall not include the fair value information of the financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

|   | December 31, 2015 |            |         |         |       |
|---|-------------------|------------|---------|---------|-------|
|   | Book value        | Fair Value |         |         | Total |
|   |                   | Level 1    | Level 2 | Level 3 |       |
| Financial assets carried at cost                                      | \$ 80,700         | -          | -       | -       | -     |
| <b>Loans and receivables</b>  |                   |            |         |         |       |
| Cash and cash equivalents   | 96,716            | -          | -       | -       | -     |
| Notes and accounts receivable   | 81,366            | -          | -       | -       | -     |
| Other receivables   | 937               | -          | -       | -       | -     |
| Restricted bank deposits (recognized as other current assets)         | 264               | -          | -       | -       | -     |
|   | <u>179,283</u>    |            |         |         |       |
| Total   | \$ <u>259,983</u> |            |         |         |       |
| <b>Financial liabilities at amortized cost through profit or loss</b> |                   |            |         |         |       |
| Short-term borrowing  | \$ 173,528        | -          | -       | -       | -     |
| Notes and accounts payable  | 63,716            | -          | -       | -       | -     |
| Other payables  | 42,293            | -          | -       | -       | -     |
| Guaranteed deposits   | 945               | -          | -       | -       | -     |
|   | <u>280,482</u>    |            |         |         |       |
| Total   | \$ <u>280,482</u> |            |         |         |       |

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

|   | December 31, 2014 |            |         |         |       |
|---|-------------------|------------|---------|---------|-------|
|   | Book value        | Fair Value |         |         | Total |
|   |                   | Level 1    | Level 2 | Level 3 |       |
| <b>Financial assets at fair value through profit or loss</b>          |                   |            |         |         |       |
| Derivative financial assets   | \$ <u>313</u>     | -          | 313     | -       | 313   |
| Financial assets carried at cost                                      | <u>50,000</u>     | -          | -       | -       | -     |
| <b>Loans and receivables</b>  |                   |            |         |         |       |
| Cash and cash equivalents   | 171,885           | -          | -       | -       | -     |
| Notes and accounts receivable   | 62,056            | -          | -       | -       | -     |
| Other receivables   | 2,006             | -          | -       | -       | -     |
| Restricted bank deposits (recognized as other current assets)         | <u>133</u>        | -          | -       | -       | -     |
|   | <u>236,080</u>    |            |         |         |       |
| Total   | <u>\$ 286,293</u> |            |         |         |       |
| <b>Financial liabilities at amortized cost through profit or loss</b> |                   |            |         |         |       |
| Short-term borrowing  | \$ 40,000         | -          | -       | -       | -     |
| Notes and accounts payable  | 66,840            | -          | -       | -       | -     |
| Other payables  | 47,999            | -          | -       | -       | -     |
| Guaranteed deposits   | <u>945</u>        | -          | -       | -       | -     |
|   | <u>155,784</u>    |            |         |         |       |
| Total   | <u>\$ 155,784</u> |            |         |         |       |

## (ii) Fair value valuation technique of financial instruments not measured at fair value

The Group estimates its instruments that are not measured at fair value by method; and the assumptions are as follows:

## A. Financial assets carried at cost

Financial assets carried at cost are unlisted stocks. Fair value is not estimated as there are not publicly quoted, hence, the financial assets are measured at cost.

## B. Financial assets and liabilities at amortized cost through profit or loss

The fair value of financial assets and liabilities measured at amortized cost through profit or loss is approximately its fair value.

(Continued)



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

(iii) Fair value valuation technique of financial instruments measured at fair value

A. Derivative financial instruments

Measurement of fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

There were no transfers of fair value hierarchy in 2015 and 2014.

(s) Financial risk management

1. Briefings

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

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

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

2. Structure of risk management

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

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

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

## 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.

## 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, 2015 and 2014, the unused short-term bank facilities were \$301,297 and \$283,650, respectively.

(Continued)

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

**Notes to Consolidated Financial Statements**

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.

(t) Capital management

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

The Group monitors the capital structure by way of periodical review on the liability ratio. The Group's capital is the "total equity" in the balance sheet, same with the total liabilities being subtracted to the total assets. As of December 31, 2015 and 2014, the liability ratio were as follows:

|                   | <u>December31,<br/>2015</u> | <u>December 31,<br/>2014</u> |
|-------------------|-----------------------------|------------------------------|
| Total liabilities | \$ 297,398                  | 170,288                      |
| Total assets      | 866,265                     | 856,905                      |
| Liability ratio   | 34%                         | 20%                          |

As of December 31 2015, there were no changes in the Group's approach to capital management.

(Continued)

## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (u) 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.

## (b) Key management personnel compensation

Key management personnel compensation comprised:

|                              | <u>2015</u>      | <u>2014</u>   |
|------------------------------|------------------|---------------|
| Short-term employee benefits | \$ 11,604        | 10,976        |
| Post-employment benefits     | <u>324</u>       | <u>324</u>    |
|                              | <u>\$ 11,928</u> | <u>11,300</u> |

## (8) Pledged Assets

The carrying values of pledged assets were as follows:

| <u>Account</u>          | <u>Subject</u>                                     | <u>December<br/>31, 2015</u> | <u>December<br/>31, 2014</u> |
|-------------------------|--|------------------------------|------------------------------|
| Land and buildings      | Guarantee for short-term loans and the credit line | \$ 117,869                   | 118,352                      |
| Investment property     | Guarantee for short-term loans and the credit line | 168,382                      | -                            |
| Reserve savings account | Warranty guarantee                                 | <u>264</u>                   | <u>133</u>                   |
|                         |  | <u>\$ 286,515</u>            | <u>118,485</u>               |

## (9) Commitments and contingencies: none

## (10) Losses due to major disasters: none

## (11) Subsequent events: none

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (12) Other

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

| By item                    | By function | 2015          |                    |        | 2014          |                    |        |
|----------------------------|-------------|---------------|--------------------|--------|---------------|--------------------|--------|
|                            |             | Cost of sales | Operating expenses | Total  | Cost of sales | Operating expenses | Total  |
| Employee benefits          |             |               |                    |        |               |                    |        |
| Salary                     |             | -             | 97,610             | 97,610 | -             | 92,568             | 92,568 |
| Labor and health insurance |             | -             | 12,822             | 12,822 | -             | 12,090             | 12,090 |
| Pension                    |             | -             | 2,623              | 2,623  | -             | 2,669              | 2,669  |
| Others                     |             | -             | 1,526              | 1,526  | -             | 1,142              | 1,142  |
| Depreciation               |             | 1,189         | 2,561              | 3,750  | 1,897         | 1,660              | 3,557  |
| Amortization               |             | 11,423        | 512                | 11,935 | 8,462         | 530                | 8,992  |

Note: The depreciation in 2015 and 2014 included the depreciation of investment property amounting to \$1,183 and \$986, respectively.

## (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. Our reportable operating segments based on the sales operation area are Europe, Americas, Taiwan and other.

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

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

|                                 | 2015              |               |                |               |                          | Total          |
|---------------------------------|-------------------|---------------|----------------|---------------|--------------------------|----------------|
|                                 | Europe            | America       | Taiwan         | Others        | Adjustment & Elimination |                |
| <b>Revenue</b>                  |                   |               |                |               |                          |                |
| Revenue from external customers | \$ 581,482        | 57,327        | 25,407         | 16,900        | -                        | 681,116        |
| Revenue from segments           | 3,034             | 740           | 243,227        | 981           | (247,982)                | -              |
|                                 | <u>\$ 584,516</u> | <u>58,067</u> | <u>268,634</u> | <u>17,881</u> | <u>(247,982)</u>         | <u>681,116</u> |

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

|                                  | 2015               |                 |                 |              |                          | Total           |
|----------------------------------|--------------------|-----------------|-----------------|--------------|--------------------------|-----------------|
|                                  | Europe             | America         | Taiwan          | Others       | Adjustment & Elimination |                 |
| Interest expense                 | 694                | -               | 1,356           | -            | -                        | 2,050           |
| Depreciation and amortization    | (482)              | (665)           | (14,505)        | (33)         | -                        | (15,685)        |
| Reportable segment profit (loss) | <u>\$ (10,398)</u> | <u>(12,449)</u> | <u>(56,443)</u> | <u>2,711</u> | <u>20,443</u>            | <u>(56,136)</u> |
| Reportable segment assets        | <u>\$ -</u>        | <u>-</u>        | <u>-</u>        | <u>-</u>     | <u>-</u>                 | <u>-</u>        |
| Reportable segment liabilities   | <u>\$ -</u>        | <u>-</u>        | <u>-</u>        | <u>-</u>     | <u>-</u>                 | <u>-</u>        |

  

|                                  | 2014              |               |                |               |                          | Total          |
|----------------------------------|-------------------|---------------|----------------|---------------|--------------------------|----------------|
|                                  | Europe            | America       | Taiwan         | Others        | Adjustment & Elimination |                |
| <b>Revenue</b>                   |                   |               |                |               |                          |                |
| Revenue from external customers  | \$ 567,833        | 72,724        | 30,534         | 13,281        | -                        | 684,372        |
| Revenue from segments            | <u>2,122</u>      | <u>-</u>      | <u>221,360</u> | <u>-</u>      | <u>(223,482)</u>         | <u>-</u>       |
|                                  | <u>\$ 569,955</u> | <u>72,724</u> | <u>251,894</u> | <u>13,281</u> | <u>(223,482)</u>         | <u>684,372</u> |
| Interest expense                 | (42)              | -             | (344)          | -             | -                        | (386)          |
| Depreciation and amortization    | (505)             | (6)           | (12,027)       | (11)          | -                        | (12,549)       |
| Reportable segment profit (loss) | <u>\$ 4,514</u>   | <u>(358)</u>  | <u>613</u>     | <u>496</u>    | <u>(3,823)</u>           | <u>1,442</u>   |
| Reportable segment assets        | <u>\$ -</u>       | <u>-</u>      | <u>-</u>       | <u>-</u>      | <u>-</u>                 | <u>-</u>       |
| Reportable segment liabilities   | <u>\$ -</u>       | <u>-</u>      | <u>-</u>       | <u>-</u>      | <u>-</u>                 | <u>-</u>       |

## (a) Production information

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

| <u>Products</u>    | <u>2015</u>       | <u>2014</u>    |
|--------------------|-------------------|----------------|
| LCD monitors       | \$ 663,852        | 674,676        |
| Medical equipment  | 5,331             | -              |
| Others accessories | 8,308             | 6,407          |
| Rental revenue     | <u>3,625</u>      | <u>3,289</u>   |
|                    | <u>\$ 681,116</u> | <u>684,372</u> |

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## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (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>2015</u>       | <u>2014</u>    |
|---------------|-------------------|----------------|
| Netherlands   | \$ 170,159        | 179,437        |
| Germany       | 144,318           | 136,957        |
| United States | 48,000            | 52,838         |
| Others        | <u>318,639</u>    | <u>315,140</u> |
|               | <u>\$ 681,116</u> | <u>684,372</u> |

## 2. Non-current assets:

| <u>Area</u> | <u>2015</u>       | <u>2014</u>    |
|-------------|-------------------|----------------|
| Taiwan      | \$ 309,608        | 320,622        |
| Others      | <u>7,016</u>      | <u>8,965</u>   |
|             | <u>\$ 316,624</u> | <u>329,587</u> |

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

## (c) Information about major customers

| <u>Customer:</u> | <u>2015</u>       | <u>2014</u>    |
|------------------|-------------------|----------------|
| A Company        | \$ <u>110,460</u> | <u>114,526</u> |