

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

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

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)**

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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 auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Associated Industries China, Inc. as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Associated Industries China, Inc. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Associated Industries China, Inc.
Chairman: Jackson Y. Yu
Date: March 16, 2017



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Independent Auditors' Report

To the Board of Directors of Associated Industries China, Inc.:

Opinion

We have audited the consolidated financial statements of Associated Industries China, Inc. and its subsidiaries (“the Group”), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to other matter paragraph) the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the “Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we judged shall be presented in the auditors’ report as follows:

1. Operating Revenue

Please refer to Note 4(o) Revenue of the consolidated financial statement for accounting policies with respect to recognizing operating revenue. Information regarding the Sales revenue is shown in Note 6(p) of the consolidated financial statements.

Description of key audit matters:

The major business activities of the Group are the research, development and sale of LCD monitors, and related components.

Operating income is one of the key items of the financial report. The amounts and changes in the operating income may affect the understanding of the financial report by its users. Therefore, the income recognition test is one of the important assessment items for us to perform audit.

Audit Procedures:

Our principal audit procedures included: understanding and testing the related controls surrounding the aforementioned sales and collection cycle, performing sales receipt test, executing the external confirmation procedures for accounts receivable, as well as assessing the operating revenue recognition of the Group to determine whether related accounting policies are applied appropriately.

2. Inventory valuation

Please refer to Note 4(h) Inventories and Note 5 of the consolidated financial statements for inventory valuation and uncertainties of inventory valuation, respectively. Information regarding the inventory is shown in Note 6(d) of the consolidated financial statements.

Description of key audit matters:

As inventories are stated at the lower of cost or net realizable value. The major business activities of the Group are the research, development and sale of LCD monitors, and related components. Due to the impact of short product life cycle, the price variability for the inventory of the Group is expected to occur. Therefore, the test of inventory valuation is one of the important assessment items audit for us to perform audit.

Audit Procedures:

Our principal audit procedures included: examining the inventory valuation policy and the accounting policy that the Group have applied; inspecting the inventory aging report; analyzing the changes in inventory age for each period; and testing the relevant values for the lower of cost or net realizable value.

3. Recognized deferred tax assets

Please refer to Note 4(r) income tax and Note 5 of the consolidated financial statements for the accounting policies for deferred tax and the uncertainties for recognition of deferred tax assets, respectively. Information regarding the deferred tax assets is shown in Note 6(l) of the consolidated financial statements.

Description of key audit matters:

The recognition and measurement of a deferred tax asset is based on the management's judgement according to the timing and amount of the expected future profits and the ability of the Group to offset any of its accumulated losses against these expected profits. This is one of the important assessment items for us to perform audit.

Audit Procedures:

Our audit procedures included: evaluating the rationality of the level of deferred tax asset balances recognized by the Group; reviewing the budget and the assumption of future operation made by the management; and assessing the taxable income and the estimation of the budget from previous years. Also, based on the understanding of the Group and the industrial information, we evaluated the assumptions of the growth rate assumed by the management, as well as assessed the disclosure of the deferred tax assets and the related estimation made by the Group.

Other Matter

Included in the accompanying consolidated financial statements are the financial statements of certain consolidated subsidiaries, AG Neovo Technology Corp., which we were not audited. The financial statements of these subsidiaries were audited by other auditors, and our opinion, insofar as it relates to the amounts for these subsidiaries, is based solely on the report of other auditors. AG Neovo Technology Corp. reflect the assets amounting to NT\$21,723 thousand, constituting 2.51% of the consolidated total assets as of December 31, 2015, respectively; and the total revenues amounting to NT\$57,327 thousand, constituting 8.42% of the consolidated total revenues for 2015, respectively.

Associated Industries China, Inc. has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Yiu-Kwan Au and Jui-Lan Lo.

KPMG

Taipei, Taiwan (Republic of China)

March 16, 2017

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such 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 auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Assets				
Current assets:				
1100 Cash and cash equivalents (note 6(a))	\$ 94,787	13	96,716	11
1170 Notes and accounts receivable, net (note 6(c))	89,378	12	81,366	10
1200 Other receivables (note 6(c))	222	-	937	-
1300 Inventories, net (note 6(d))	184,064	24	278,384	32
1410 Prepayments	7,238	1	10,655	1
1470 Other current assets (note 8)	1,167	-	883	-
	<u>376,856</u>	<u>50</u>	<u>468,941</u>	<u>54</u>
Non-current assets:				
1543 Financial assets carried at cost-non-current (note 6(b))	80,700	11	80,700	9
1600 Property, plant and equipment (notes 6(e) and 8)	125,655	16	126,122	15
1760 Investment property, net (notes 6(f) and 8)	167,199	22	168,382	19
1780 Intangible assets (note 6(g))	7,901	1	17,550	2
1900 Other non-current assets	2,335	-	4,570	1
	<u>383,790</u>	<u>50</u>	<u>397,324</u>	<u>46</u>
Total assets	<u>\$ 760,646</u>	<u>100</u>	<u>866,265</u>	<u>100</u>
Liabilities and Equity				
Current liabilities:				
2100 Short-term borrowings (note 6(h))	\$ 89,729	12	173,528	20
2170 Notes and accounts payable	63,762	8	63,716	7
2200 Other payables	46,024	6	48,309	6
2250 Current provisions (note 6(i))	5,024	1	7,678	1
2300 Other current liabilities	3,472	-	3,222	-
	<u>208,011</u>	<u>27</u>	<u>296,453</u>	<u>34</u>
Non-current liabilities:				
2600 Other non-current liabilities	945	-	945	-
	<u>945</u>	<u>-</u>	<u>945</u>	<u>-</u>
Total liabilities	<u>208,956</u>	<u>27</u>	<u>297,398</u>	<u>34</u>
Equity attributable to owners of parent: (notes 6(m) and (n))				
3110 Common stock	531,626	70	535,126	62
3200 Capital surplus	24,662	3	22,952	3
Retained earnings:				
3310 Legal reserve	51,494	7	51,494	6
3320 Special reserve	58,095	8	45,440	5
3350 Accumulated deficits	(41,515)	(6)	(20,605)	(2)
	<u>68,074</u>	<u>9</u>	<u>76,329</u>	<u>9</u>
Other equity interest:				
3410 Exchange differences on translation of foreign financial statements	(69,624)	(9)	(58,095)	(7)
3490 Unearned employee benefit	(3,048)	-	(7,445)	(1)
	<u>(72,672)</u>	<u>(9)</u>	<u>(65,540)</u>	<u>(8)</u>
Total equity	<u>551,690</u>	<u>73</u>	<u>568,867</u>	<u>66</u>
Total liabilities and equity	<u>\$ 760,646</u>	<u>100</u>	<u>866,265</u>	<u>100</u>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

**(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share,
 Which is expressed in New Taiwan Dollars))**

		2016		2015	
		Amount	%	Amount	%
Operating revenues, net (note 6(p)):					
4110	Sales revenue	\$ 776,970	103	691,942	102
4190	Less: Sales returns and allowances	22,704	3	14,451	2
4310	Rental income (note 6(j))	3,697	-	3,625	-
		757,963	100	681,116	100
5000	Cost of sales (notes 6(d) and (j))	554,011	73	529,055	78
5950	Gross profit	203,952	27	152,061	22
Operating expenses (note 12):					
6100	Selling expenses	143,695	19	139,232	21
6200	Administrative expenses	58,565	8	63,313	9
6300	Research and development expenses	8,293	1	8,327	1
		210,553	28	210,872	31
6900	Net operating loss	(6,601)	(1)	(58,811)	(9)
Non-operating income and expenses:					
7100	Interest income	110	-	219	-
7190	Other income	328	-	80	-
7210	Gains on disposals of property, plant and equipment (note 6(e))	-	-	2	-
7230	Foreign exchange gains (losses),net	(689)	-	4,927	1
7235	Gains (losses) on financial assets at fair value through profit or loss	582	-	(503)	-
7510	Interest expense	(2,277)	-	(2,050)	-
		(1,946)	-	2,675	1
7900	Loss before tax	(8,547)	(1)	(56,136)	(8)
7950	Less: Tax expense (benefit) (note 6(l))	(292)	-	307	-
8200	Loss	(8,255)	(1)	(56,443)	(8)
Other comprehensive income:					
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign financial statements	(11,529)	(2)	(12,654)	(2)
8300	Other comprehensive income, net	(11,529)	(2)	(12,654)	(2)
8500	Comprehensive income	\$ (19,784)	(3)	(69,097)	(10)
Earnings (loss) per share (note 6(o))					
9750	Basic earnings (loss) per share	\$ (0.16)		(1.08)	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings				Unappropriated retained earnings (accumulated deficits)		Other equity interest		Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings (accumulated deficits)	Exchange differences on translation of foreign financial statements	Unearned employee benefit		
Balance on January 1, 2015	\$ 538,406	23,452	51,433	45,026	88,627	(45,441)	(14,886)	686,617	
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	61	-	(61)	-	-	-	
Special reserve appropriated	-	-	-	414	(414)	-	-	-	
Cash dividends	-	-	-	-	(53,841)	-	-	(53,841)	
Loss for the year ended December 31, 2015	-	-	-	-	(56,443)	-	-	(56,443)	
Other comprehensive income	-	-	-	-	-	(12,654)	-	(12,654)	
Comprehensive income	-	-	-	-	(56,443)	(12,654)	-	(69,097)	
Share-based payment transactions	(3,280)	(500)	-	-	1,527	-	7,441	5,188	
Balance on December 31, 2015	535,126	22,952	51,494	45,440	(20,605)	(58,095)	(7,445)	568,867	
Appropriation and distribution of retained earnings:									
Special reserve appropriated	-	-	-	12,655	(12,655)	-	-	-	
Loss for the year ended December 31, 2016	-	-	-	-	(8,255)	-	-	(8,255)	
Other comprehensive income	-	-	-	-	-	(11,529)	-	(11,529)	
Comprehensive income	-	-	-	-	(8,255)	(11,529)	-	(19,784)	
Share-based payment transactions	(3,500)	1,710	-	-	-	-	4,397	2,607	
Balance on December 31, 2016	\$ 531,626	24,662	51,494	58,095	(41,515)	(69,624)	(3,048)	551,690	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from (used in) operating activities:		
Loss before tax	\$ (8,547)	(56,136)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	4,237	3,750
Amortization expense	12,260	11,935
Provision (reversal of provision) for bad debt expense	304	58
Interest expense	2,277	2,050
Interest income	(110)	(219)
Share-based payments	2,607	3,661
Gains on disposals of property, plant and equipment	-	(2)
Total adjustments to reconcile profit (loss)	<u>21,575</u>	<u>21,233</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Changes in financial assets at fair value through profit or loss	-	313
Decrease (increase) in notes and accounts receivable	(8,316)	(19,368)
Decrease (increase) in other receivables	537	984
Decrease (increase) in inventories	94,320	(66,575)
Decrease (increase) in prepayments	2,015	17,101
Decrease (increase) in other current assets	(397)	89
Decrease (increase) in other operating assets	-	188
	<u>88,159</u>	<u>(67,268)</u>
Changes in operating liabilities:		
Increase (decrease) in notes and accounts payable	46	(3,124)
Increase (decrease) in other payable	(1,649)	(4,897)
Increase (decrease) in provisions	(2,644)	2,850
Increase (decrease) in other operating liabilities	250	(566)
	<u>(3,997)</u>	<u>(5,737)</u>
Total changes in operating assets and liabilities	<u>84,162</u>	<u>(73,005)</u>
Total adjustments	<u>105,737</u>	<u>(51,772)</u>
Cash flows from (used in) operations	97,190	(107,908)
Interest received	111	507
Interest paid	(2,283)	(1,998)
Income taxes paid	1,241	(612)
Net cash flows from (used in) operating activities	<u>96,259</u>	<u>(110,011)</u>
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(2,680)	(2,485)
Proceeds from disposal of property, plant and equipment	-	70
Decrease (increase) in refundable deposits	2,235	1,310
Acquisition of intangible assets	(2,611)	(1,847)
Acquisition of financial assets carried at cost-noncurrent	-	(30,700)
Decrease (increase) in other non-current assets	113	(131)
Net cash flows from (used in) investing activities	<u>(2,943)</u>	<u>(33,783)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	(83,799)	133,528
Cash dividends paid	-	(53,841)
Other financing activities	-	1,527
Net cash flows from (used in) financing activities	<u>(83,799)</u>	<u>81,214</u>
Effect of exchange rate changes on cash and cash equivalents	(11,446)	(12,589)
Net decrease in cash and cash equivalents	(1,929)	(75,169)
Cash and cash equivalents at beginning of period	96,716	171,885
Cash and cash equivalents at end of period	<u>\$ 94,787</u>	<u>96,716</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

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 statements:

These consolidated financial statements were authorized for issuance by the board of directors on March 16, 2017.

(3) New standards, amendments and interpretations adopted:

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014

(Continued)

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

The following is a summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's consolidated financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" (Applicable for IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 "Investment Property"	January 1, 2018

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The Group is still currently determining the potential impact of the standards listed below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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Issuance / Release	Dates	Standards or Interpretations	Content of amendment
	January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Group is evaluating the impact on its consolidated financial position and financial performance of the initial adoption of the above-mentioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of 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

(i) 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(ii) 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 Group's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) 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.

(ii) List of subsidiaries in the consolidated financial statements.

Name of investor	Name of subsidiary	Principal activity	Shareholding	
			December 31, 2016	December 31, 2015
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 %

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(d) Foreign currencies

(i) 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 assets and liabilities 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.

(ii) Foreign operations

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

When a foreign operation is disposed to 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 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 only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, the foreign currency gains and losses arising from such items are considered to form part 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:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) 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:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) 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 the issue of 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.

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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(g) Financial Instruments

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

(i) Financial assets

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

1) Financial assets at fair value through profit or loss

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

2) 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 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 cost, less, impairment loss, and are included in financial assets measured at cost.

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.

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

3) 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 is included in non-operating income and expenses.

4) 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.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS 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.

Impairment losses on available for sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to 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 recognized on an available for sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income, and accumulated in other equity.

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.

5) **Derecognition of financial asset**

The Group derecognizes its financial assets when the contractual rights of the cash inflow from the assets are terminated, or when the Group transfers substantially all the risks and rewards of ownership on its 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 and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in non-operating income and expenses.

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss, and included in non-operating income or expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(ii) Financial liabilities

1) 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.

2) 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.

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. 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.

4) 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.

(iii) 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 a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. Inventories are measured at the lower of cost or net realizable value item by item.

(i) 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

(i) 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.

(ii) 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(iii) 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:

- 1) Buildings: 50 years.
- 2) Improvement to buildings: 10 years.
- 3) Machinery and research equipment: 6 years.
- 4) Molding equipment: 2 years.
- 5) Other equipment: 3~5 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.

(iv) 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

(i) 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) 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.

(l) Intangible assets

(i) Goodwill

1) Initial recognition

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

2) 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.

(ii) Other intangible assets

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

(iii) 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 recognized in profit or loss as incurred.

(iv) Amortization

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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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.

(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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(o) Revenue

(i) 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.

(ii) Rental income

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.

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

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to the 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.

(ii) Short-term employee benefits

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

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(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.

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:

- (i) 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.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

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

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

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

(s) Earnings (loss) 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.

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

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

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC 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 estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in 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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the net realizable value of the inventory is mainly determined based on assumptions as to future sales price. Due to the industry and market transformation, there may be changes in the net realizable value of inventories. Please refer to note 6(d) for further description of the valuation of inventories.

(b) Recognition of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires management's subjective judgment and estimate, including the future revenue growth and profitability, tax holidays, the amount of tax credits that can be utilized and feasible tax planning strategies. Changes in the economic environment, industry trends, and relevant laws and regulations may result in adjustments to the deferred tax assets. Please refer to note 6(l) for further description of the recognition of deferred tax assets.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Petty cash, checking accounts and demand deposits	\$ 91,406	93,305
Time deposits	<u>3,381</u>	<u>3,411</u>
	<u><u>\$ 94,787</u></u>	<u><u>96,716</u></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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(b) Financial assets carried at cost – non-current

	December 31, 2016	December 31, 2015
Common stock unlisted on domestic markets	\$ 50,000	50,000
Preferred stock unlisted on foreign markets	30,700	30,700
	\$ 80,700	80,700

The Group purchased the preferred stock issued by IRONYUN INCORPORATED amounting to US\$1,000 thousands (NT\$30,700), which was accounted for as financial assets carried at cost – non-current.

The 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, 2016 and 2015, the Group did not provide any financial assets carried at cost – non-current as collaterals for its loans.

(c) Notes and accounts receivable and other receivables

	December 31, 2016	December 31, 2015
Notes receivable	\$ 50	550
Accounts receivable	89,813	81,277
Other receivables	222	937
	90,085	82,764
Less: Allowance for doubtful accounts	(419)	(115)
Allowance for sales discounts	(66)	(346)
	\$ 89,600	82,303
Notes and account receivable, net	\$ 89,378	81,366
Other receivables	\$ 222	937

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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The aging analysis of notes and accounts receivable and other receivables were as follows:

	December 31, 2016	December 31, 2015
Not overdue	\$ 65,810	64,689
Overdue period for 1~30 days	21,699	17,521
Overdue period for 31~90 days	2,069	371
Overdue period for 91~180 days	210	183
Overdue period for 181~360 days	<u>297</u>	<u>-</u>
	<u>\$ 90,085</u>	<u>82,764</u>

The change in the allowance for notes and accounts receivables and other receivables for the years ended December 31, 2016 and 2015 were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2016	\$ -	115	115
Impairment loss recognized	<u>-</u>	<u>304</u>	<u>304</u>
Balance on December 31, 2016	<u>\$ -</u>	<u>419</u>	<u>419</u>
	Individually assessed impairment	Collectively assessed impairment	Total
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>

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

As of December 31, 2016 and 2015, the Group did not provide the aforementioned notes and accounts receivable and other receivables as collaterals for its loans.

(d) Inventories

	December 31, 2016	December 31, 2015
Merchandise inventories	<u>\$ 184,064</u>	<u>278,384</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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The details of cost of sales for the years ended December 31, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Cost of goods sold and expenses	\$ 552,326	519,778
Inventory valuation loss and obsolescence	<u>72</u>	<u>7,703</u>
	<u>\$ 552,398</u>	<u>527,481</u>

As of December 31, 2016 and 2015, the Group did not provide any inventories as collaterals for its loans.

(e) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2016 and 2015 were as follows:

	<u>Land</u>	<u>Buildings and building improvement</u>	<u>Machinery and R&D equipment</u>	<u>Molding equipment and other equipment</u>	<u>Total</u>
Cost:					
Balance on January 1, 2016	\$ 95,104	28,416	4,926	19,505	147,951
Additions	-	-	-	2,680	2,680
Disposal and derecognitions	-	-	-	(8)	(8)
Effect of movements in exchange rates	-	-	(38)	(477)	(515)
Balance on December 31, 2016	<u>\$ 95,104</u>	<u>28,416</u>	<u>4,888</u>	<u>21,700</u>	<u>150,108</u>
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>
Depreciation:					
Balance on January 1, 2016	\$ -	2,412	1,270	18,147	21,829
Depreciation for the year	-	908	1,179	967	3,054
Disposal and derecognitions	-	-	-	(8)	(8)
Effect of movements in exchange rates	-	-	(12)	(410)	(422)
Balance on December 31, 2016	<u>\$ -</u>	<u>3,320</u>	<u>2,437</u>	<u>18,696</u>	<u>24,453</u>
Balance on January 1, 2015	\$ -	1,505	211	17,975	19,691
Depreciation for the year	-	907	1,038	622	2,567
Disposals 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>

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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	Land	Buildings and building improvement	Machinery and R&D equipment	Molding equipment and other equipment	Total
Book value:					
Balance on December 31, 2016	\$ <u>95,104</u>	<u>25,096</u>	<u>2,451</u>	<u>3,004</u>	<u>125,655</u>
Balance on January 1, 2015	\$ <u>95,104</u>	<u>26,911</u>	<u>2,661</u>	<u>1,640</u>	<u>126,316</u>
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>

As of December 31, 2016 and 2015, the property, plant and equipment has been pledged as collateral or restricted. Please refer to note 8.

(f) Investments property

	Land	Buildings and construction	Total
Cost			
Balance as of January 1, 2016 (Same balance as of December 31, 2016)	\$ <u>111,400</u>	<u>59,151</u>	<u>170,551</u>
Balance as of January 1, 2015 (Same balance as of December 31, 2015)	\$ <u>111,400</u>	<u>59,151</u>	<u>170,551</u>
Depreciation:			
Balance on January 1, 2016	\$ -	2,169	2,169
Depreciation for the year	-	1,183	1,183
Balance on December 31, 2016	\$ <u>-</u>	<u>3,352</u>	<u>3,352</u>
Balance on January 1, 2015	\$ -	986	986
Depreciation for the year	-	1,183	1,183
Balance on December 31, 2015	\$ <u>-</u>	<u>2,169</u>	<u>2,169</u>
Book value:			
Balance on December 31, 2016	\$ <u>111,400</u>	<u>55,799</u>	<u>167,199</u>
Balance on January 1, 2015	\$ <u>111,400</u>	<u>58,165</u>	<u>169,565</u>
Balance on December 31, 2015	\$ <u>111,400</u>	<u>56,982</u>	<u>168,382</u>
Fair Value:			
Balance on December 31, 2016			\$ <u>167,883</u>
Balance on December 31, 2015			\$ <u>166,955</u>

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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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 (j).

As of December 31, 2016 and 2015, the investment property has been pledged as collateral for short term borrowings and credits. Please refer to note 8.

(g) Intangible Assets

	<u>Product Development expense</u>	<u>Computer software and others</u>	<u>Total</u>
Cost:			
Balance on January 1, 2016	\$ 26,862	5,559	32,421
Additions	<u>-</u>	<u>2,611</u>	<u>2,611</u>
Balance on December 31, 2016	<u>\$ 26,862</u>	<u>8,170</u>	<u>35,032</u>
Balance on January 1, 2015	\$ 26,862	12,278	39,140
Additions	-	1,847	1,847
Disposals	<u>-</u>	<u>(8,566)</u>	<u>(8,566)</u>
Balance on December 31, 2015	<u>\$ 26,862</u>	<u>5,559</u>	<u>32,421</u>
Amortization:			
Balance on January 1, 2016	\$ 11,354	3,517	14,871
Amortization for the period	<u>8,954</u>	<u>3,306</u>	<u>12,260</u>
Balance on December 31, 2016	<u>\$ 20,308</u>	<u>6,823</u>	<u>27,131</u>
Balance on January 1, 2015	\$ 2,400	9,102	11,502
Amortization for the period	8,954	2,981	11,935
Disposals	<u>-</u>	<u>(8,566)</u>	<u>(8,566)</u>
Balance on December 31, 2015	<u>\$ 11,354</u>	<u>3,517</u>	<u>14,871</u>
Book value:			
Balance on December 31, 2016	<u>\$ 6,554</u>	<u>1,347</u>	<u>7,901</u>
Balance on January 1, 2015	<u>\$ 24,462</u>	<u>3,176</u>	<u>27,638</u>
Balance on December 31, 2015	<u>\$ 15,508</u>	<u>2,042</u>	<u>17,550</u>

As of December 31, 2016 and 2015, the Group did not provide any intangible assets as collaterals for its loans.

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

(h) Short-term borrowings

	December 31, 2016	December 31, 2015
Unsecured bank loans	\$ 19,729	10,000
Secured bank loans	<u>70,000</u>	<u>163,528</u>
Total	<u>\$ 89,729</u>	<u>173,528</u>
Unused credit lines for short-term borrowings	<u>\$ 384,521</u>	<u>301,297</u>
Annual interest rates	<u>1.10%~1.95%</u>	<u>1.10%~2.00%</u>

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.

(i) Provisions

	Warranty
Balance on January 1, 2016	\$ 7,678
Provisions made during the period	3,641
Provisions reversed during the period	(3,800)
Provisions used during the period	(2,485)
Effect of movements in exchange rates	<u>(10)</u>
Balance on December 31, 2016	<u>\$ 5,024</u>
Balance on January 1, 2015	\$ 4,807
Provisions made during the period	9,812
Provisions reversed during the period	(3,861)
Provisions used during the period	(3,101)
Effect of movements in exchange rates	<u>21</u>
Balance on December 31, 2015	<u>\$ 7,678</u>

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

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

(j) Operating lease

(i) The Group as lessee

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

	December 31, 2016	December 31, 2015
Less than one year	\$ 5,631	8,754
Between one and five years	2,092	7,616
	<u>\$ 7,723</u>	<u>16,370</u>

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

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

For the years ended December 31, 2016 and 2015, expenses recognized in profit or loss with respect to operating leases amounted to \$13,690 and \$13,465, respectively.

(ii) The Group as lessor

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

	December 31, 2016	December 31, 2015
Less than one year	\$ 3,969	3,672
Between one and five years	16,176	761
	<u>\$ 20,145</u>	<u>4,433</u>

For the years ended December 31, 2016 and 2015, the rentals recognized in operating revenue amounted to \$3,697 and \$3,625, respectively; the direct costs incurred in rental, which were recognized as operating costs, amounted to \$1,613 and \$1,574, respectively.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(k) 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 \$2,524 and \$2,623 for the years ended December 31, 2016 and 2015, respectively. Payment was made to the Bureau of Labour Insurance.

(l) Income taxes

(i) Income tax expenses

- 1) The amount of income tax for the years ended December 31, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Tax expenses (benefit)	\$ <u>(292)</u>	<u>307</u>

- 2) Reconciliation of income tax and loss before tax for 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Losses before tax	\$ <u>(8,547)</u>	<u>(56,136)</u>
Income tax using the Company's domestic tax rate	(1,453)	(9,543)
Effect of tax rates in foreign jurisdiction	927	(366)
Deferred tax assets unrecognized in respect of the current tax losses	3,999	7,345
Recognition of previously unrecognized temporary differences	(1,049)	7,024
Under (over) provision in prior periods	(1,495)	(308)
Other	<u>(1,221)</u>	<u>(3,845)</u>
	\$ <u><u>(292)</u></u>	<u><u>307</u></u>

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(ii) Deferred tax assets

1) Unrecognized deferred tax assets

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Tax effect of deductible temporary differences	\$ 81,676	82,725
Tax effect of loss carryforward	187,775	188,959
Foreign currency translation differences of foreign operations	<u>11,836</u>	<u>9,876</u>
	<u>\$ 281,287</u>	<u>281,560</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, 2016 and 2015. 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, 2016, 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	(assessed)
2015	25,105	2025	(declared)
2016	<u>8,553</u>	2026	(estimated)
	<u>\$ 424,283</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, 2016, AG Neovo USA had unused net operating loss of about US\$9,114 thousands and US\$755 thousands for federal and state income tax return purposes, respectively, which can be carried forward through 2036.

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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, 2016, 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.

- 2) Recognized deferred tax assets: None.
- (iii) The ROC tax authorities have examined the Company's income tax returns through 2014.
- (iv) Information related to the Company's unappropriated earnings and tax deduction ratio was summarized below:

	December 31, 2016	December 31, 2015
Unappropriated earnings (accumulated deficits) of 1998 and after	\$ (41,515)	(20,605)
Balance of imputation credit account	\$ 3,922	4,096
	2016 (Estimated)	2015 (Actual)
Creditable ratio for earnings distribution to ROC residents	- %	- %

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.

(m) Capital and other equities

As of December 31, 2016 and 2015, the Company's authorized common stocks were consisting of 200,000 thousand shares with a par value of 10 New Taiwan dollars per share amounted 2,000,000 of which 53,163 and 53,513 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(i) Ordinary shares

Reconciliation of shares outstanding for 2016 and 2015 were as follows:

Unit: in thousand shares

	Common stock	
	2016	2015
Balance on January 1	53,513	53,841
Issuance of new restricted employee shares	-	126
Cancellation of new restricted employee shares	(350)	(454)
Balance on December 31	53,163	53,513

350 and 454 thousand shares of employee restricted shares were cancelled in 2016 and 2015 as certain employees of the Company did not meet the vesting requirements, and the cancellation procedure had been completed.

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2016	December 31, 2015
Additional paid-in capital	\$ 20,986	20,986
Restricted employee shares	1,086	1,596
Employee stock options	2,590	370
	\$ 24,662	22,952

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.

(iii) Retained Earning

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and the others are supposed to be set aside or reversed as the special reserve in accordance with laws and regulations. And then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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The Company adopts the residual dividend policy. In consideration of the expansion of operations and the need of cash flows in the future, when the Company plans to distribute its dividends, the distributable amounts cannot be less than 50% of the cumulative distributable surplus. Moreover, at least 10% of the dividends should be distributed in cash.

1) 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.

2) 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, 2016 and 2015 are \$58,095 and \$45,440, respectively.

3) Earnings distribution

Based on the resolutions made during the annual stockholders' meetings held on June 24, 2016, the loss on the appropriation of dividends in 2015 need not to be allocated.

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

	2014	
	Amount per share	Total amount
Dividends distributed to common shareholders:		
Cash	\$ 1	53,841

For the year ended December 31, 2014, the Company did not accrue and recognize its remuneration to employees, directors and supervisors.

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

(n) Share-based payment

(i) 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.

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	
	2016	2015
Outstanding units at January 1	1,042	1,370
Granted during the period	-	126
Forfeited during the period	(350)	(454)
Outstanding units at December 31	692	1,042

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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As of December 31, 2016 and 2015, the unearned employee benefits were \$3,048 and \$7,445, respectively.

The compensation cost related to restricted stock amounted to \$387 and \$3,291 in 2016 and 2015, 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.

(ii) 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:

	2016		2015	
	Shares (in thousands)	Weighted- average exercise price (NT dollars)	Shares (in thousands)	Weighted- average exercise price (NT dollars)
Outstanding shares on January 1	1,850	\$ 10.00	-	-
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>	<u>\$ 10.00</u>	<u>1,850</u>	<u>10.00</u>
Exercisable shares on December 31	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

As of December 31, 2016, the weighted-average remaining contractual life of the outstanding stock options was 2.83 years.

The issuance terms of the stock options are as follows:

- 1) Exercise price: NT\$10 per share.
- 2) 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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Period to exercise options	Exercisable percentage (cumulative)
2 years after options received	50 %
3 years after options received	100 %

- 3) 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

The compensation cost related to employee stock options amounted to \$2,220 and \$370 in 2016 and 2015. As of December 31, 2016 and 2015, the capital surplus related to employee stock options was \$2,590 and \$370.

- (o) Earnings (loss) per share

Basic earnings (loss) per share and diluted earnings per share for the years ended December 31, 2016 and 2015, was computed as follows:

	2016	2015
Basic net income (loss) per share:		
Net loss	\$ <u><u>(8,255)</u></u>	<u><u>(56,443)</u></u>
Weighted-average number of shares outstanding (thousands)	<u><u>52,471</u></u>	<u><u>52,471</u></u>
Basic earnings (loss) per share (dollars)	\$ <u><u>(0.16)</u></u>	<u><u>(1.08)</u></u>

The Company issued restricted employee shares and employee stock options that have an anti-dilutive effect; hence, they were not included in the calculation of the earning (loss) per share.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(p) Revenue

	<u>2016</u>	<u>2015</u>
Sale of Goods		
LCD monitors	\$ 736,459	663,852
Medical equipment	8,940	5,331
Other	8,867	8,308
Investment property		
Rental revenue	<u>3,697</u>	<u>3,625</u>
	<u>\$ 757,963</u>	<u>681,116</u>

(q) Remuneration to employees, directors and supervisors

The Company's articles of incorporation, which were authorized by the board of directors but has yet to be determined by the shareholders, require that earning shall first be offset against any deficit, then, a minimum of 10% will be distributed as employee remuneration and a maximum of 2% will be allocated as directors' and supervisors' remuneration. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of the subsidiaries of the Company who meet certain specific requirement.

For the year ended December 31, 2016, the Company had accumulated deficits, thus, no remuneration to employees, and directors and supervisors were recognized.

(r) Financial Instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk. As of December 31, 2016 and 2015, the maximum amount exposed to credit risk amounted to \$265,238 and \$259,983, respectively.

2) 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(ii) Liquidity Risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
December 31, 2016				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 89,729	(89,729)	(89,729)	-
Notes and accounts payable	63,762	(63,762)	(63,762)	-
Other payables	40,712	(40,712)	(40,712)	-
Guarantee deposits	<u>945</u>	<u>(945)</u>	<u>-</u>	<u>(945)</u>
	<u>\$ 195,148</u>	<u>(195,148)</u>	<u>(194,203)</u>	<u>(945)</u>
December 31, 2015				
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	<u>945</u>	<u>(945)</u>	<u>-</u>	<u>(945)</u>
	<u>\$ 280,482</u>	<u>(280,482)</u>	<u>(279,537)</u>	<u>(945)</u>

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(iii) Currency risk

1) Exposure to foreign currency risk (expressed in thousands for foreign currencies)

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

	December 31, 2016			December 31, 2015		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	\$	362 USD/TWD =32.250	11,682	224 USD/TWD =32.825		7,357
USD		6 USD/CNY =6.9851	179	12 USD/CNY =6.5716		387
USD		122 USD/EUR =1.0512	3,936	88 USD/EUR =1.0931		2,897
EUR		8 EUR/TWD =33.900	271	8 EUR/TWD =35.880		285
CNY		168 CNY/TWD =4.617	777	179 CNY/TWD =4.995		892
Financial liabilities						
Monetary items						
USD		577 USD/TWD =32.250	18,608	824 USD/TWD =32.825		27,057
USD		634 USD/EUR =1.0512	20,452	540 USD/EUR =1.0931		17,745

2) 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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A weakening (strengthening) 5% of each foreign currency against the functional currency on December 31, 2016 and 2015 would have affected the net loss before tax as follows:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
USD (against the TWD)		
Appreciate 5%	\$ 346	985
Depreciate 5%	(346)	(985)
USD (against the CNY)		
Appreciate 5%	(9)	(19)
Depreciate 5%	9	19
USD (against the EUR)		
Appreciate 5%	826	742
Depreciate 5%	(826)	(742)
EUR (against the TWD)		
Appreciate 5%	(14)	(14)
Depreciate 5%	14	14
CNY (against the TWD)		
Appreciate 5%	(39)	(45)
Depreciate 5%	39	45

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

3) Foreign exchange gain and loss on monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount for disclosure. In 2016 and 2015, the foreign exchange gains (losses), including both realized and unrealized, amounted to \$(689) and \$4,927, respectively.

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

(iv) Interest rate analysis

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

	December 31, 2016	December 31, 2015
Variable rate instruments (carrying amount):		
Financial assets	\$ 72,930	72,413
Financial liabilities	(89,729)	(173,528)

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

If the interest rate had increased or decreased by 0.25%, the net loss before tax would have increased or decreased by \$ 42 and \$253 for the years ended December 31, 2016 and 2015, respectively, which would mainly result from the bank savings and short-term borrowings with variable interest rates at the reporting date.

If the interest rate had increased or decreased by 0.25%, the net loss before tax would have increased or decreased by \$ for the year ended December 31, 2016 and the net profit before tax would have decreased or increased by \$ for the year ended December 31, 2015, which would be mainly resulted from the bank savings and short-term borrowings with variable interest rates at the reporting date.

(v) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss, derivative financial instruments used for hedging, and available for sale financial assets are measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy, were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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		December 31, 2016			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets carried at cost	\$ 80,700	-	-	-	-
Loans and receivables					
Cash and cash equivalents	94,787	-	-	-	-
Notes and accounts receivable	89,378	-	-	-	-
Other receivables	222	-	-	-	-
Restricted bank deposits (recognized as other current assets)	<u>151</u>	-	-	-	-
Subtotal	<u>184,538</u>				
	<u>\$ 265,238</u>				
Financial liabilities at amortized cost through profit or loss					
Short-term borrowing	\$ 89,729	-	-	-	-
Notes and accounts payable	63,762	-	-	-	-
Other payables	40,712	-	-	-	-
Guaranteed deposits	<u>945</u>	-	-	-	-
	<u>\$ 195,148</u>				
		December 31, 2015			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets carried at cost	\$ 80,700	-	-	-	-
Loans and receivables					
Cash and cash equivalents	96,716	-	-	-	-
Notes and accounts receivable	81,366	-	-	-	-
Other receivables	937	-	-	-	-
Restricted bank deposits (recognized as other current assets)	<u>264</u>	-	-	-	-
Subtotal	<u>179,283</u>				
	<u>\$ 259,983</u>				
Financial liabilities at amortized cost through profit or loss					
Short-term borrowing	\$ 173,528	-	-	-	-
Notes and accounts payable	63,716	-	-	-	-
Other payables	42,293	-	-	-	-
Guaranteed deposits	<u>945</u>	-	-	-	-
	<u>\$ 280,482</u>				

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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2) 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.

3) 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.

4) There were no transfers of fair value hierarchy in 2016 and 2015.

(s) Financial risk management

(i) Briefings

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

- 1) Credit risk
- 2) Liquidity risk
- 3) 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.

(ii) 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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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.

(iii) 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.

1) 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.

2) 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.

(iv) 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, 2016 and 2015, the unused short-term bank facilities were \$384,521 and \$301,297, respectively.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(v) 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.

1) 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.

2) 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, 2016 and 2015, the liability ratio were as follows:

	December 31, 2016	December 31, 2015
Total liabilities	\$ 208,956	297,398
Total assets	760,646	866,265
Liability ratio	27 %	34 %

As of December 31 2016, there were no changes in the Group's approach to capital management.

(7) Related-party transactions:

(a) Parent company and ultimate controlling company

The Company is the ultimate controlling party of the Group.

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(b) Key management personnel compensation

Key management personnel compensation comprised:

	2016	2015
Short-term employee benefits	\$ 10,801	11,604
Post-employment benefits	282	324
	<u>\$ 11,083</u>	<u>11,928</u>

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Account	Subject	December 31, 2016	December 31, 2015
Land and buildings	Guarantee for short-term loans and the credit line	\$ 117,385	117,869
Investment property	Guarantee for short-term loans and the credit line	167,199	168,382
Reserve savings account	Warranty guarantee	151	264
		<u>\$ 284,735</u>	<u>286,515</u>

(9) Commitments and contingencies:None

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(12) Other:

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

By function	2016			2015		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
By item						
Employee benefits						
Salary	-	99,193	99,193	-	97,610	97,610
Labor and health insurance	-	12,517	12,517	-	12,822	12,822
Pension	-	2,524	2,524	-	2,623	2,623
Others	-	2,228	2,228	-	1,526	1,526
Depreciation	1,183	3,054	4,237	1,189	2,561	3,750
Amortization	11,829	431	12,260	11,423	512	11,935

Note: The depreciation in 2016 and 2015 included the depreciation of investment property amounting are both to \$1,183, respectively.

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group in 2016:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars and US dollars)

Number	Name of lender	Name of borrower	Account name	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
												Item	Value		
0	The Company	AG Neovo USA	Accounts Receivable-Related Parties	6,450 (US\$200)	-	-	2%	Short-term financing	-	Operating turnover	-		-	110,338	220,676

Note 1 : 0 represents the Company.

Note 2 : Based on the Company's Procedures of Lending Funds to Other Parties, when there is a financing activity due to business dealings or short-term financing needs with others, the total financing amounts and the maximum financing provided to individual company cannot exceed 40% and 20%, respectively of the net worth of the Company. The maximum financing provided to an entity which has business dealings with the Company cannot exceed the amounts of the transaction in the current fiscal year. The maximum financing provided to an entity which has business dealings with the Company cannot exceed the amounts of the transaction in the current fiscal year. Moreover, the amounts of the transaction is the higher of purchasing amounts or sales amounts. For those inter-company loans for funding between offshore subsidiaries in which the Company holds, directly or indirectly, 100% of the voting shares, the total financing amounts and the maximum financing provided to an individual company of each loan for funding cannot exceed 40% and 20%, respectively, of the net worth of the funding subsidiary.

Note 3 : The transactions have been eliminated in the consolidated financial statements.

Note 4 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD32.25 on December 31, 2016.

(ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars and US dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date (note 4)	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary (note 2)	Subsidiary endorsements/ guarantees to third parties on behalf of parent company (note 2)	Endorsements/ guarantees to third parties on behalf of companies in Mainland China (note 2)
		Name	Relationship with the Company										
0	The Company	AG Neovo B.V	100% owned subsidiary	551,690	214,500 (US\$2,000) (NT\$150,000)	214,500 (US\$2,000) (NT\$150,000)	8,729	-	38.88 %	551,690	Yes	No	No
0	"	AG Neovo USA	"	551,690	30,000	30,000	-	-	5.44 %	551,690	Yes	No	No

Note : According to the Company's Procedures for Endorsement and Guarantee, the total amount of endorsement guarantees the Company or the Group is permitted to provide shall not exceed 100% of the Company's net worth.

(iii) Securities held as of December 31, 2016 (excluding the investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company	Taiwan Biophotonic Corporation	-	Financial assets carried at cost - non-current	5,000	50,000	19.23 %	-	5,000	19.23 %	
"	Ironyun Incorporated	-	"	5,000	30,700	5.99 %	-	5,000	6.02 %	

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ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES
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- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase /Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	AG Neovo B.V	100% owned subsidiary	(Sale)	(257,258)	(84) %	Depending on the demand for funding	Not applicable	General transactions for 30 to 150 days collection	Note 1	-%	Note 2

Note 1 : As of December 31, 2016, the amount of unearned sales revenue was NT\$64,905 thousands..

Note 2 : The left transactions have been eliminated in the preparation of consolidated financial statements.

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None.
- (ix) Trading in derivative instruments:None.
- (x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company name	Counter party	Relationship (Note 2)	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Accounts name	Amount	Terms	
0	The Company	AG Neovo B.V	1	Operating revenue	257,258	The price is marked up based on the operating cost, and the receivables depend on the funding demand with in the credit period.	33.94 %
0	"	"	1	Unearned sales revenue	64,905	"	8.53 %
0	"	AG Neovo USA	1	Operating revenue	21,570	"	2.85 %
0	"	"	1	Unearned sales revenue	8,176	"	1.07 %

Note 1: The numbers filled in as follows:

1.0 represents the Company.

2. Subsidiaries are sorted in a numerical order starting from 1.

Note 2: Relationship with the transactions labeled as follows:

1 represents the transactions from the parent company to its subsidiaries.

2 represents the transactions between the subsidiaries and the parent company.

3 represents the transactions between subsidiaries.

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(b) Information on investees:

The following is the information on investees for the years ended December 31, 2016 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars and US dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Ending Balance as of December 31, 2016			Highest balance during the year		Net income (losses) of Investee (Note2)	Investment Income(losses) (Note2)	Note
				December 31, 2016 (Note 1)	December 31, 2015 (Note 1)	Shares	Percentage of wnership	Carrying value (Note 1)	Shares	Percentage of wnership			
The Company	GMF	Tropic Isle Building, P.O.Box 438 Road Town, Tortola British Virgin Islands	Investment	313,522	313,522	0.7	100 %	30,424	0.7	100 %	(10,337)	(10,337)	Note 3
"	AG Neovo B.V	Molenbaan 9, 2908 LL Capelle aan den IJssel, Rotterdam Netherlands	Sales LCD monitors	187,013	187,013	4.8	100 %	163,861	4.8	100 %	8,213	8,213	"
"	AG Neovo Investment	OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands	Investment	14,796	14,796	0.5	100 %	14,972	0.5	100 %	1,111	1,111	"
GMF	AG Neovo International	Beaufort House, P.O.Box 438, Road Town, Tortola, British Virgin Islands	Investment	15,480 (US\$ 480)	15,480 (US\$ 480)	0.01	100 %	7 (US\$ -)	0.01	100 %	- (US\$ -)	-	Recognized by Shareholding percentage by GMF
"	AG Neovo USA	2362 Qume Drive Suite A San Jose, CA 95131 U.S.A.	Sales LCD monitors and medical equipment	64,500 (US\$ 2,000)	64,500 (US\$ 2,000)	701	100 %	29,380 (US\$ 911)	701	100 %	(9,415) (US\$ 292)	-	"

Note1: The amounts in New Taiwan Dollars were translated at the exchange rates of USD32.25 on December 31,2016.

Note2: The amounts in New Taiwan Dollars were translated at the exchange rates of USD32.243 based on the yearly average exchange rate.

Note3: The left transactions have been eliminated in the preparation of the consolidated financial statements.

(c) Information on investment in mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars and US dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital (Note 2)	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2015 (Note 2)	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016 (Note 2)	Net income (losses) of the investee (Note 3)	Percentage of ownership	Highest balance during the year		Investment Income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow				Shares	Percentage of wnership			
AG Neovo (Shanghai)	Sales LCD monitors	16,125 (US\$500)	Note 1	16,125 (US\$500)	-	-	16,125 (US\$500)	1,773 (US\$55)	100%	-	100%	1,773 (US\$55)	15,641 (US\$485)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2016 (Notes 2 and 4)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 2 and 4)	Upper Limit on Investment
130,161 (US\$4,036)	130,161 (US\$4,036)	331,014

Note 1 : Indirect investment in Mainland China through companies registered in the third region.

Note 2 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD32.25 on December 31,2016.

Note 3 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD32.243 based on the yearly average exchange rate.

Note 4 : Including the withdrawal of the Shanghai CIMC Baowell Industries Co.,Ltd. investment.

(iii) Significant transactions:None

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(14) 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 others.

(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:

	2016					Total
	Europe	America	Taiwan	Others	Adjustment & Elimination	
Revenue						
Revenue from external customers	\$ 652,783	56,867	28,426	19,887	-	757,963
Revenue from segments	<u>595</u>	<u>1,633</u>	<u>279,034</u>	<u>-</u>	<u>(281,262)</u>	<u>-</u>
	<u>\$ 653,378</u>	<u>58,500</u>	<u>307,460</u>	<u>19,887</u>	<u>(281,262)</u>	<u>757,963</u>
Interest expense	479	-	1,798	-	-	2,277
Depreciation and amortization	(524)	(729)	(15,205)	(39)	-	(16,497)
Reportable segment profit (loss)	<u>\$ 7,896</u>	<u>(10,312)</u>	<u>(8,255)</u>	<u>1,111</u>	<u>1,013</u>	<u>(8,547)</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>
	2015					Total
	Europe	America	Taiwan	Others	Adjustment & Elimination	
Revenue						
Revenue from external customers	\$ 581,482	57,327	25,407	16,900	-	681,116
Revenue from segments	<u>3,034</u>	<u>740</u>	<u>243,227</u>	<u>981</u>	<u>(247,982)</u>	<u>-</u>
	<u>\$ 584,516</u>	<u>58,067</u>	<u>268,634</u>	<u>17,881</u>	<u>(247,982)</u>	<u>681,116</u>
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>

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(c) Production information

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

	<u>2016</u>	<u>2015</u>
LCD monitors	\$ 736,459	663,852
Medical equipment	8,940	5,331
Others accessories	8,867	8,308
Rental revenue	<u>3,697</u>	<u>3,625</u>
	<u>\$ 757,963</u>	<u>681,116</u>

(d) Geographic information

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

Revenue from external customers:

<u>Area</u>	<u>2016</u>	<u>2015</u>
Netherlands	\$ 194,724	170,159
Germany	162,367	144,318
United States	49,515	48,000
Others	<u>351,357</u>	<u>318,639</u>
	<u>\$ 757,963</u>	<u>681,116</u>

Non-current assets:

<u>Area</u>	<u>2016</u>	<u>2015</u>
Taiwan	\$ 299,151	309,608
Others	<u>3,939</u>	<u>7,016</u>
	<u>\$ 303,090</u>	<u>316,624</u>

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

(e) Information about major customers

<u>Customer</u>	<u>2016</u>	<u>2015</u>
A Company	\$ 126,054	110,460
B Company	<u>81,382</u>	<u>71,276</u>
	<u>\$ 207,436</u>	<u>181,736</u>

