

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

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2017 and 2016  
(With Independent Auditors' Report Thereon)**

Address: 5F-1, No. 3-1, Park Street, Nangang District, Taipei, 11503  
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The independent 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 independent 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, 2017 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 23, 2018



安侯建業聯合會計師事務所

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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. (“the Company”) and its subsidiaries (“the Group”), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended 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”), as well as the interpretation developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect 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. 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, medical equipment and related components. The Group has entered into the business selling professional dental equipment in recent years, with having limited sales historical records available for inventory valuation. Therefore, the test of inventory valuation is an important assessment items 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.

#### Other Matter

Associated Industries China, Inc. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, 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 the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect 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 (including the supervisors) 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 disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of 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 Kuan-Ying Kuo and Jui-Lan Lo.

KPMG

Taipei, Taiwan (Republic of China)  
March 23, 2018

#### 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 independent 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 independent 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 Statements of Comprehensive Income**

**For the years ended December 31, 2017 and 2016**

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

		<u>2017</u>		<u>2016</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Operating revenues, net (note 6(p)):</b>					
4110	Sales revenue	\$ 766,755	103	776,970	103
4190	Less: sales returns and allowances	26,467	4	22,704	3
4310	Rental income (note 6(j))	<u>3,983</u>	<u>1</u>	<u>3,697</u>	<u>-</u>
		744,271	100	757,963	100
5000	<b>Cost of sales (notes 6(d) and (j))</b>	<u>530,228</u>	<u>71</u>	<u>554,011</u>	<u>73</u>
5950	<b>Gross profit</b>	<u>214,043</u>	<u>29</u>	<u>203,952</u>	<u>27</u>
<b>Operating expenses (note 12):</b>					
6100	Selling expenses	134,087	18	143,695	19
6200	Administrative expenses	57,700	8	58,565	8
6300	Research and development expenses	<u>10,054</u>	<u>1</u>	<u>8,293</u>	<u>1</u>
		<u>201,841</u>	<u>27</u>	<u>210,553</u>	<u>28</u>
6900	<b>Net operating income (loss)</b>	<u>12,202</u>	<u>2</u>	<u>(6,601)</u>	<u>(1)</u>
<b>Non-operating income and expenses:</b>					
7100	Interest revenue	123	-	110	-
7190	Other income	5,495	-	328	-
7230	Foreign exchange gains (losses), net	2,372	-	(689)	-
7235	Gains (losses) on financial assets at fair value through profit or loss	(3,263)	-	582	-
7510	Interest expense	<u>(2,412)</u>	<u>-</u>	<u>(2,277)</u>	<u>-</u>
		<u>2,315</u>	<u>-</u>	<u>(1,946)</u>	<u>-</u>
7900	<b>Profit (loss) before tax</b>	14,517	2	(8,547)	(1)
7950	<b>Less: income tax expense (benefit) (note 6(l))</b>	<u>5,923</u>	<u>1</u>	<u>(292)</u>	<u>-</u>
8200	<b>Profit (loss)</b>	<u>8,594</u>	<u>1</u>	<u>(8,255)</u>	<u>(1)</u>
<b>Other comprehensive income (loss):</b>					
<b>Items that may be reclassified subsequently to profit or loss:</b>					
8361	Exchange differences on translation of foreign financial statements	<u>6,315</u>	<u>1</u>	<u>(11,529)</u>	<u>(2)</u>
8300	<b>Other comprehensive income (loss), (after tax)</b>	<u>6,315</u>	<u>1</u>	<u>(11,529)</u>	<u>(2)</u>
8500	<b>Comprehensive income (loss)</b>	<u>\$ 14,909</u>	<u>2</u>	<u>(19,784)</u>	<u>(3)</u>
<b>Earnings (loss) per share (note 6(o))</b>					
9750	<b>Basic earnings (loss) per share</b>	<u>\$ 0.16</u>		<u>(0.16)</u>	
9850	<b>Diluted earnings (loss) per share</b>	<u>\$ 0.16</u>			

See accompanying notes to consolidated financial statements.



(English Translation of Consolidated 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, 2017 and 2016**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Retained earnings				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
<b>Balance on January 1, 2016</b>	\$ 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 loss for the year ended December 31, 2016	-	-	-	-	-	(11,529)	-	(11,529)
Comprehensive loss for the year ended December 31, 2016	-	-	-	-	(8,255)	(11,529)	-	(19,784)
Share-based payment transactions	(3,500)	1,710	-	-	-	-	-	2,607
Balance on December 31, 2016	531,626	24,662	51,494	58,095	(41,515)	(69,624)	(3,048)	551,690
Appropriation and distribution of retained earnings:								
Reversal of special reserve	-	-	-	(12,655)	12,655	-	-	-
Profit for the year ended December 31, 2017	-	-	-	-	8,594	-	-	8,594
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	6,315	-	6,315
Comprehensive income for the year ended December 31, 2017	-	-	-	-	-	6,315	-	6,315
Share-based payment transactions	(3,578)	1,445	-	-	8,594	-	-	14,909
<b>Balance on December 31, 2017</b>	\$ <b>528,048</b>	<b>26,107</b>	<b>51,494</b>	<b>45,440</b>	<b>(20,266)</b>	<b>(63,309)</b>	<b>(837)</b>	<b>566,677</b>

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, 2017 and 2016**

**(Expressed in Thousands of New Taiwan Dollars)**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from (used in) operating activities:</b>		
Profit (loss) before tax	\$ 14,517	(8,547)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	4,206	4,237
Amortization expense	7,005	12,260
Provision (reversal of provision) for bad debt expense	(368)	304
Interest expense	2,412	2,277
Interest revenue	(123)	(110)
Share-based payment transactions	78	2,607
Total adjustments to reconcile profit (loss)	<u>13,210</u>	<u>21,575</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in notes and accounts receivable	3,477	(8,316)
Decrease (increase) in other receivables	(230)	537
Decrease (increase) in inventories	(26,851)	94,320
Decrease (increase) in prepayments	263	2,015
Decrease (increase) in other current assets	(538)	(397)
	<u>(23,879)</u>	<u>88,159</u>
Changes in operating liabilities:		
Increase (decrease) in notes and accounts payable	2,919	46
Increase (decrease) in other payables	9,530	(1,649)
Increase (decrease) in provisions	(871)	(2,644)
Increase (decrease) in other operating liabilities	697	250
	<u>12,275</u>	<u>(3,997)</u>
Total changes in operating assets and liabilities	<u>(11,604)</u>	<u>84,162</u>
Total adjustments	<u>1,606</u>	<u>105,737</u>
Cash flows from (used in) operations	16,123	97,190
Interest received	123	111
Interest paid	(2,424)	(2,283)
Income taxes refund (paid)	624	1,241
Net cash flows from (used in) operating activities	<u>14,446</u>	<u>96,259</u>
<b>Cash flows from (used in) investing activities:</b>		
Prepayments of investments	(3,010)	-
Acquisition of property, plant and equipment	(1,271)	(2,680)
Decrease (increase) in refundable deposits	(48)	2,235
Acquisition of intangible assets	(1,378)	(2,611)
Decrease in other non-current assets	-	113
Net cash flows from (used in) investing activities	<u>(5,707)</u>	<u>(2,943)</u>
<b>Cash flows from (used in) financing activities:</b>		
Decrease in short-term loans	(1,430)	(83,799)
Net cash flows from (used in) financing activities	<u>(1,430)</u>	<u>(83,799)</u>
Effect of exchange rate changes on cash and cash equivalents	6,273	(11,446)
Net increase (decrease) in cash and cash equivalents	13,582	(1,929)
Cash and cash equivalents at beginning of period	94,787	96,716
Cash and cash equivalents at end of period	<u>\$ 108,369</u>	<u>94,787</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, 2017 and 2016**

**(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 23, 2018.

**(3) New standards, amendments and interpretations adopted**

- (a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning or after January 1, 2017:

<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 "Presentation of Financial Statements-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 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014

(Continued)

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

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

The Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

(Continued)

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

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements will have any material impact on its accounting for financial assets.

At December 31, 2017, the Group had equity investments classified as financial assets measured amounting to \$80,700 that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group estimated that the application of IFRS 9's classification requirements on January 1, 2018 will result in an increase of \$44,274 in its reserves.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

(Continued)

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group estimated the application of IFRS 9's impairment requirements on January 1, 2018 would not have any impact on its allowance for impairment and retained earnings.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

(Continued)

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

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. 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.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

The Group assesses that the timing that significant risks and rewards of the ownership transfer to the customers and the timing that the control of the goods transfer to the customers are similar, therefore, the Group expect that there is no significant impact for the transactions.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate the changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(iv) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group estimated the application of the amendments would not have any material impact on its deferred tax assets.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES**  
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- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015--2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

Those which may be relevant to The Group are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
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"> <li>· 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.</li> <li>· A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.</li> </ul>

(Continued)



**ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES**  
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<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
June 7, 2017	IFRIC 23 "Uncertainty over Income Tax Treatments"	<p>In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.</p> <p>If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.</p>

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned 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 and issued into effect to as the Regulations) and IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC.

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

(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.

(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, 2017	December 31, 2016
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 %

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

Name of investor	Name of subsidiary	Principal activity	Shareholding	
			December 31, 2017	December 31, 2016
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 %

(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:

- 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 in equity.

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

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 asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It 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 issuing equity instruments do not affect its classification.

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

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

(g) Financial Instruments

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

(i) Financial assets

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

1) Financial assets at fair value through profit or loss

A financial asset is classified as held for trading 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 the 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 the 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 of accounts receivable are recognized in profit or loss; impairment losses and recoveries of other financial assets are recognized 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.

(Continued)

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

(ii) Financial liabilities

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

2) 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.

3) 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.

4) 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.

5) 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.

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

(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.

(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 an investment 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.

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

(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 reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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

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

- 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.

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

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 investment accounted for using equity method is included in the carrying amount of the investment, and its impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of such investment.

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

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**ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES**  
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(iv) Amortization

The amortizable amount is the cost of an asset, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are summarized as follows:

- 1) Computer software: 1~5 years.
- 2) Product development expenses: 1 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 (the higher of its fair value, less, costs to sell and its value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for an individual asset or a CGU 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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The Group adopted the IFRIC 21 “Levies” for the first-time adoption. According to the new Interpretation, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

(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**  
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**(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.

**(6) Explanation of significant accounts:**

**(a) Cash and cash equivalents**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Petty cash, checking accounts and demand deposits	\$ 104,987	91,406
Time deposits	3,382	3,381
	<u>\$ 108,369</u>	<u>94,787</u>

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

**(b) Financial assets carried at cost – non-current**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Common stock unlisted on domestic markets	\$ 50,000	50,000
Preferred stock unlisted on foreign markets	30,700	30,700
	<u>\$ 80,700</u>	<u>80,700</u>

The Group purchased the common stock issued by IRONYUN INCORPORATED amounting to \$3,010, which was accounted for as non-current prepayments for investments since the Group has yet to acquire the shares.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES**  
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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, 2017 and 2016, 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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Notes receivable	\$ 189	50
Accounts receivable	86,146	89,813
Other receivables	<u>406</u>	<u>222</u>
	86,741	90,085
Less: Allowance for doubtful accounts	(51)	(419)
Allowance for sales discounts	<u>(15)</u>	<u>(66)</u>
	<u>\$ 86,675</u>	<u>89,600</u>
Notes and account receivable, net	<u>\$ 86,269</u>	<u>89,378</u>
Other receivables	<u>\$ 406</u>	<u>222</u>

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Not overdue	\$ 75,477	65,810
Overdue period for 1~30 days	11,007	21,699
Overdue period for 31~90 days	257	2,069
Overdue period for 91~180 days	-	210
Overdue period for 181~360 days	<u>-</u>	<u>297</u>
	<u>\$ 86,741</u>	<u>90,085</u>

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**ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES**  
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The change in the allowance for notes and accounts receivables and other receivables for the years ended December 31, 2017 and 2016 were as follows:

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2017	\$ -	419	419
Impairment loss reversed	-	(368)	(368)
Balance on December 31, 2017	<u>\$ -</u>	<u>51</u>	<u>51</u>
	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2016	\$ -	115	115
Impairment loss recognized	-	304	304
Balance on December 31, 2016	<u>\$ -</u>	<u>419</u>	<u>419</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, 2017 and 2016, the Group did not provide the aforementioned notes and accounts receivable and other receivables as collaterals for its loans.

(d) Inventories

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Merchandise inventories	<u>\$ 210,915</u>	<u>184,064</u>

The details of cost of sales for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Cost of goods sold and expenses	\$ 526,053	552,326
Inventory valuation loss and obsolescence	2,572	72
	<u>\$ 528,625</u>	<u>552,398</u>

In 2017 and 2016, the write-down of inventories to net realizable value amounted to \$2,572 and \$72, respectively.

As of December 31, 2017 and 2016, the Group did not provide any inventories as collaterals for its loans.

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(e) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2017 and 2016 were as follows:

	Land	Buildings and building improvement	Machinery and R&D equipment	Molding equipment and other equipment	Total
<b>Cost:</b>					
Balance on January 1, 2017	\$ 95,104	28,416	4,888	21,700	150,108
Additions	-	576	189	506	1,271
Disposal and derecognitions	-	-	-	(3,506)	(3,506)
Effect of movements in exchange rates	-	-	(170)	278	108
Balance on December 31, 2017	<u>\$ 95,104</u>	<u>28,992</u>	<u>4,907</u>	<u>18,978</u>	<u>147,981</u>
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>
<b>Depreciation:</b>					
Balance on January 1, 2017	\$ -	3,320	2,437	18,696	24,453
Depreciation for the year	-	927	1,142	954	3,023
Disposal and derecognitions	-	-	-	(3,506)	(3,506)
Effect of movements in exchange rates	-	-	(124)	235	111
Balance on December 31, 2017	<u>\$ -</u>	<u>4,247</u>	<u>3,455</u>	<u>16,379</u>	<u>24,081</u>
Balance on January 1, 2016	\$ -	2,412	1,270	18,147	21,829
Depreciation for the year	-	908	1,179	967	3,054
Disposals 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>
<b>Book value:</b>					
Balance on December 31, 2017	<u>\$ 95,104</u>	<u>24,745</u>	<u>1,452</u>	<u>2,599</u>	<u>123,900</u>
Balance on January 1, 2016	<u>\$ 95,104</u>	<u>26,004</u>	<u>3,656</u>	<u>1,358</u>	<u>126,122</u>
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>

As of December 31, 2017 and 2016, the property, plant and equipment has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

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## (f) Investments property

	<u>Land</u>	<u>Buildings and construction</u>	<u>Total</u>
<b>Cost</b>			
Balance as of January 1, 2017	\$ <u>111,400</u>	<u>59,151</u>	<u>170,551</u>
(Same balance as of December 31, 2017)			
Balance as of January 1, 2016	\$ <u>111,400</u>	<u>59,151</u>	<u>170,551</u>
(Same balance as of December 31, 2016)			
<b>Depreciation:</b>			
Balance on January 1, 2017	\$ -	3,352	3,352
Depreciation for the year	-	<u>1,183</u>	<u>1,183</u>
Balance on December 31, 2017	\$ <u>-</u>	<u>4,535</u>	<u>4,535</u>
Balance on January 1, 2016	\$ -	2,169	2,169
Depreciation for the year	-	<u>1,183</u>	<u>1,183</u>
Balance on December 31, 2016	\$ <u>-</u>	<u>3,352</u>	<u>3,352</u>
<b>Book value:</b>			
Balance on December 31, 2017	\$ <u>111,400</u>	<u>54,616</u>	<u>166,016</u>
Balance on January 1, 2016	\$ <u>111,400</u>	<u>56,982</u>	<u>168,382</u>
Balance on December 31, 2016	\$ <u>111,400</u>	<u>55,799</u>	<u>167,199</u>
<b>Fair Value:</b>			
Balance on December 31, 2017			\$ <u>167,550</u>
Balance on December 31, 2016			\$ <u>167,883</u>

Investment property comprises of commercial property that is leased to third parties. Each of the leases contains an initial non-cancellable lease period. Subsequent renewals are negotiated with the lessee. No contingent rents are charged. Please refer to note 6 (j). The fair value measurement for the investment properties has been categorized as a Level 3 fair value based on the current market value for comparable properties in similar locations and condition.

As of December 31, 2017 and 2016, the investment property has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

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## (g) Intangible Assets

	<b>Product Development expense</b>	<b>Computer software and others</b>	<b>Total</b>
<b>Cost:</b>			
Balance on January 1, 2017	\$ 26,862	8,170	35,032
Additions	-	1,378	1,378
Effect of movements in exchange rates	-	(243)	(243)
Balance on December 31, 2017	<u>\$ 26,862</u>	<u>9,305</u>	<u>36,167</u>
Balance on January 1, 2016	\$ 26,862	5,559	32,421
Additions	-	2,611	2,611
Balance on December 31, 2016	<u>\$ 26,862</u>	<u>8,170</u>	<u>35,032</u>
<b>Amortization:</b>			
Balance on January 1, 2017	\$ 20,308	6,823	27,131
Amortization for the period	6,554	451	7,005
Disposals	-	(243)	(243)
Balance on December 31, 2017	<u>\$ 26,862</u>	<u>7,031</u>	<u>33,893</u>
Balance on January 1, 2016	\$ 11,354	3,517	14,871
Amortization for the period	8,954	3,306	12,260
Balance on December 31, 2016	<u>\$ 20,308</u>	<u>6,823</u>	<u>27,131</u>
<b>Book value:</b>			
Balance on December 31, 2017	<u>\$ -</u>	<u>2,274</u>	<u>2,274</u>
Balance on January 1, 2016	<u>\$ 15,508</u>	<u>2,042</u>	<u>17,550</u>
Balance on December 31, 2016	<u>\$ 6,554</u>	<u>1,347</u>	<u>7,901</u>

As of December 31, 2017 and 2016, the Group did not provide any intangible assets as collaterals for its loans.

## (h) Short-term borrowings

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Unsecured bank loans	\$ 59,299	19,729
Secured bank loans	29,000	70,000
Total	<u>\$ 88,299</u>	<u>89,729</u>
Unused credit lines for short-term borrowings	<u>\$ 347,701</u>	<u>384,521</u>
Annual interest rates	<u>1.10%~2.57%</u>	<u>1.10%~1.95%</u>

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

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**ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES**  
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The Group provided property, plant and equipment and investments property as collaterals for its bank loans. Please refer to note 8.

(i) Provisions

	<b>Warranty</b>
Balance on January 1, 2017	\$ 5,024
Provisions made during the period	3,308
Provisions used during the period	(3,179)
Provisions reversed during the period	(1,000)
Effect of movements in exchange rates	(45)
Balance on December 31, 2017	<b><u>\$ 4,108</u></b>
Balance on January 1, 2016	\$ 7,678
Provisions made during the period	3,641
Provisions used during the period	(2,485)
Provisions reversed during the period	(3,800)
Effect of movements in exchange rates	(10)
Balance on December 31, 2016	<b><u>\$ 5,024</u></b>

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

(j) Operating lease

(i) The Group as lessee

Non-cancellable operating lease rentals payable were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Less than one year	\$ 7,006	5,631
Between one and five years	15,823	2,092
	<b><u>\$ 22,829</u></b>	<b><u>7,723</u></b>

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 operating leases.

For the years ended December 31, 2017 and 2016, expenses recognized in profit or loss with respect to operating leases amounted to \$12,366 and \$13,690, respectively.

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(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:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Less than one year	\$ 4,044	3,969
Between one and five years	<u>12,958</u>	<u>16,176</u>
	<u>\$ 17,002</u>	<u>20,145</u>

For the years ended December 31, 2017 and 2016, the rentals recognized in operating revenue amounted to \$3,983 and \$3,697, respectively; the direct costs incurred in rental, which were recognized as operating costs, amounted to \$1,603 and \$1,613, respectively.

(k) Employee benefits

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 Group recognized pension costs under the defined contribution method amounting to \$2,681 and \$2,524 for the years ended December 31, 2017 and 2016, respectively. Payment was made to the Bureau of Labor Insurance.

(l) Income taxes

(i) Income tax expenses

1) The amount of income tax for the years ended December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Tax expenses (benefit)	\$ <u>5,923</u>	<u>(292)</u>

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**ASSOCIATED INDUSTRIES CHINA, INC. AND ITS SUBSIDIARIES**  
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- 2) Reconciliation of income tax and loss before tax for 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Profit (loss) before tax	\$ 14,517	(8,547)
Income tax using the Company's domestic tax rate	2,468	(1,453)
Effect of tax rates in foreign jurisdiction	1,819	927
Current year losses for which no deferred tax asset was recognized	2,644	3,999
Changes in unrecognized temporary differences	(3,529)	(1,049)
Under (over) provision in prior periods	-	(1,495)
Others	2,521	(1,221)
	<u>\$ 5,923</u>	<u>(292)</u>

(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, 2017</u>	<u>December 31, 2016</u>
Tax effect of deductible temporary differences	\$ 78,147	81,676
The carryforward of unused tax losses	111,523	187,775
Foreign currency translation differences of foreign operations	10,762	11,836
	<u>\$ 200,432</u>	<u>281,287</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, 2017 and 2016. 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 R.O.C Income Tax Act allows net losses, as assessed by the tax authorities, to offset against any taxable income over a period of ten years for local tax reporting purposes.

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The Company estimated tax losses which could be used to offset future taxable income as of December 31, 2017, were as follows:

<u>Year of loss</u>	<u>Unused tax credits</u>	<u>Expiry year</u>	<u>Remark</u>
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	assessed
2016	8,868	2026	declared
2017	2,593	2027	estimated
	<u>\$ 247,941</u>		

According to the US Tax Act, the assessed loss carryforward of AG Neovo USA can be used to offset against any federal and state taxable income over a period of twenty years. As of December 31, 2017, AG Neovo USA had unused net operating loss of about US\$9,200 thousands and US\$804 thousands for federal and state income tax return purposes, respectively, which can be carried forward through 2037.

According to Dutch Tax Act, the assessed loss carryforward of AG Neovo B.V. can be used to offset against any taxable income over a period of ten years. As of December 31, 2017, AG Neovo B.V. had unused net operating loss of about EUR\$1,148 thousands, which can be carried forward through 2024.

The tax losses mentioned above could be used to offset against any future taxable income. Because of the uncertainty of future taxable income, the Group did not recognize the deferred tax assets arising from the tax losses.

- 2) Recognized deferred tax assets and liabilities: None.
- (iii) The ROC tax authorities have examined the Company's income tax returns through 2015.
- (iv) Information related to the Company's unappropriated earnings and tax deduction ratio was summarized below:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unappropriated earnings (accumulated deficits) of 1998 and after	(Note)	<u>(41,515)</u>
Balance of Imputation Credit Account ("ICA")	(Note)	<u>3,922</u>
	<u>2017 (Estimated)</u>	<u>2016 (Actual)</u>
Creditable ratio for earnings distribution to ROC residents	(Note)	<u>-</u> %

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

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(m) Capital and other equities

As of December 31, 2017 and 2016, 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 52,805 and 53,163 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

(i) Ordinary shares

Reconciliation of shares outstanding for 2017 and 2016 were as follows:

	Unit: in thousand shares	
	<b>Common stock</b>	
	<u>2017</u>	<u>2016</u>
Balance on January 1	53,163	53,513
Cancellation of new restricted employee shares	<u>(358)</u>	<u>(350)</u>
Balance on December 31	<u><b>52,805</b></u>	<u><b>53,163</b></u>

358 and 350 thousand shares of employee restricted shares were cancelled in 2017 and 2016 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:

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Additional paid-in capital	\$ 20,986	20,986
Restricted employee shares	530	1,086
Employee stock options	<u>4,591</u>	<u>2,590</u>
	<u><b>\$ 26,107</b></u>	<u><b>24,662</b></u>

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According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained Earnings

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.

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

According to the amendment of the R.O.C. Company Act in January 2012, the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

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, 2017 and 2016 are \$45,440 and \$58,095, respectively.

3) Earnings distribution

Based on the resolutions made during the annual stockholders' meetings held on June 14, 2017 and June 24, 2016, respectively, the loss on the appropriation of dividends in 2016 and 2015 need not to be allocated.

(Continued)

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(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	
	2017	2016
Outstanding units at January 1	692	1,042
Forfeited during the year	(358)	(350)
Outstanding units at December 31	334	692

As of December 31, 2017 and 2016, the unearned employee benefits were \$837 and \$3,048, respectively.

The compensation cost related to restricted stock amounted to \$(1,923) and \$387 in 2017 and 2016, respectively.

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(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:

	2017		2016	
	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	1,850	10.00
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Outstanding shares on December 31	<u>1,850</u>	\$ 10.00	<u>1,850</u>	10.00
Exercisable shares on December 31	<u>-</u>	-	<u>-</u>	-

As of December 31, 2017, the weighted-average remaining contractual life of the outstanding stock options was 1.83 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.

Period to exercise options	Exercisable percentage (cumulative)
2 years after options received	50 %
3 years after options received	100 %

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- 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 \$2,001 and \$2,220 in 2017 and 2016. As of December 31, 2017 and 2016, the capital surplus related to employee stock options was \$4,591 and \$2,590.

- (o) Earnings (loss) per share

Basic earnings (loss) per share and diluted earnings per share for the years ended December 31, 2017 and 2016, was computed as follows:

	<u>2017</u>	<u>2016</u>
<b>Basic net income (loss) per share:</b>		
Net income (loss)	<u>\$ 8,594</u>	<u>(8,255)</u>
Weighted-average number of shares outstanding (thousands)	<u>52,471</u>	<u>52,471</u>
Basic earnings (loss) per share (dollars)	<u>\$ 0.16</u>	<u>(0.16)</u>
<b>Diluted net income per share:</b>		
Weighted-average number of shares outstanding (thousands)	52,471	
Effect of restricted employee shares unvested	<u>224</u>	
Weighted-average number of shares outstanding (thousands)	<u>52,695</u>	
Diluted earnings per share (dollars)	<u>\$ 0.16</u>	

The aforementioned employee stock options have an anti-dilutive effect; hence, they were not included in the calculation of the weighted average number of shares (diluted).

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## (p) Revenue

	<b>2017</b>	<b>2016</b>
Sale of Goods		
LCD monitors	\$ 718,128	736,459
Medical equipment	9,411	8,940
Other	12,749	8,867
Investment property		
Rental revenue	3,983	3,697
	<b>\$ 744,271</b>	<b>757,963</b>

## (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, directors and supervisors were recognized. Despite the company has profit before income tax for the year ended December 31, 2017, the Company had accumulated deficits yet, thus, no remuneration to employees, directors and supervisors were recognized. Related information would be available at the Market Observation Post System website.

## (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.

## 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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(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>
<b>December 31, 2017</b>				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 88,299	(88,299)	(88,299)	-
Notes and accounts payable	66,681	(66,681)	(66,681)	-
Other payables	53,883	(53,883)	(53,883)	-
Guarantee deposits	<u>945</u>	<u>(945)</u>	<u>-</u>	<u>(945)</u>
	<u>\$ 209,808</u>	<u>(209,808)</u>	<u>(208,863)</u>	<u>(945)</u>
<b>December 31, 2016</b>				
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>

The Group does not expect the cash flows, included in the maturity analysis, to occur significantly earlier or at significantly different amounts.

(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:

	<u>December 31, 2017</u>			<u>December 31, 2016</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
Financial assets						
Monetary items						
USD	\$ 1,238	USD/TWD =29.76	36,855	362	USD/TWD =32.250	11,682
USD	173	USD/EUR =1.1952	5,152	122	USD/EUR =1.0512	3,936

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	December 31, 2017			December 31, 2016		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial liabilities						
Monetary items						
USD	1,208	USD/TWD =29.76	35,964	577	USD/TWD =32.250	18,608
USD	-	USD/EUR =1.1952	-	634	USD/EUR =1.0512	20,452

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, and other payables that are denominated in foreign currency.

A weakening (strengthening) 5% of each foreign currency against the functional currency on December 31, 2017 and 2016 would have affected the net profit (loss) before tax as follows:

	December 31, 2017	December 31, 2016
USD (against the TWD)		
Appreciate 5%	\$ 45	346
Depreciate 5%	(45)	(346)
USD (against the EUR)		
Appreciate 5%	258	826
Depreciate 5%	(258)	(826)

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 2017 and 2016, the foreign exchange gains (losses), including both realized and unrealized, amounted to \$2,372 and \$(689), respectively.

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(iv) Interest rate analysis

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

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Variable rate instruments (carrying amount):		
Financial assets	\$ 85,624	72,930
Financial liabilities	(88,299)	(89,729)

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

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have decreased or increased by \$7 for the years ended December 31, 2017, and the net loss before tax would have increased or decreased by \$42 for the years ended December 31, 2016, which would mainly result 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 :

	<u>December 31, 2017</u>				
	<u>Book value</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets carried at cost	\$ 80,700	-	-	-	-
Loans and receivables					
Cash and cash equivalents	108,369	-	-	-	-
Notes and accounts receivable	86,269	-	-	-	-
Other receivables	406	-	-	-	-
Restricted bank deposits (recognized as other current assets)	<u>151</u>	-	-	-	-
Subtotal	<u>195,195</u>				
	<u>\$ 275,895</u>				

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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 from one level to another in 2017 and 2016.

(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.

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.

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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, 2017 and 2016, the unused short-term bank facilities were \$347,701 and \$384,521, respectively.

(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).

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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, 2017 and 2016, the liability ratio were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Total liabilities	\$ 225,315	208,956
Total assets	791,992	760,646
Liability ratio	28 %	27 %

As of December 31 2017, there were no changes in the Group's approach to capital management.

(7) Related-party transactions:

Key management personnel compensation

Key management personnel compensation comprised:

	<b>2017</b>	<b>2016</b>
Short-term employee benefits	\$ 9,484	10,801
Post-employment benefits	216	282
	<b>\$ 9,700</b>	<b>11,083</b>

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**(8) Pledged assets:**

The carrying values of pledged assets were as follows:

<u>Account</u>	<u>Subject</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Land and buildings	Guarantee for short-term loans and the credit line	\$ 116,902	117,385
Investment property	Guarantee for short-term loans and the credit line	166,016	167,199
Restricted bank deposits	Warranty guarantee	<u>151</u>	<u>151</u>
		<u>\$ 283,069</u>	<u>284,735</u>

**(9) Commitments and contingencies:**

As of December 31, 2017, the unused balance of the Group's letters of credit was \$1,707.

**(10) Losses Due to Major Disasters:None****(11) Subsequent Events:**

Taiwan Biophotonic Corporation proposed to increase its capital by \$40,000 through cash injection, wherein the Company decided to participate in based on a resolution approved during its board of directors' meeting held on March 23, 2018, and the amount depends on the fundraising situation of the investee.

At the meeting held on March 23, 2018, the Company's board of directors decided to issue 2,000 thousand employee restricted shares to full-time employees.

**(12) Other:**

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

<b>By function</b>	<b>2017</b>			<b>2016</b>		
	<b>Cost of sales</b>	<b>Operating expenses</b>	<b>Total</b>	<b>Cost of sales</b>	<b>Operating expenses</b>	<b>Total</b>
<b>By item</b>						
Employee benefits						
Salary	-	93,781	93,781	-	99,193	99,193
Labor and health insurance	-	12,480	12,480	-	12,517	12,517
Pension	-	2,681	2,681	-	2,524	2,524
Others	-	3,390	3,390	-	2,228	2,228
Depreciation	1,183	3,023	4,206	1,183	3,054	4,237
Amortization	6,704	301	7,005	11,829	431	12,260

Note: The depreciation in 2017 and 2016 included the depreciation of investment property amounting are both to \$1,183, respectively.

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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 2017:

**(i) Loans to other parties:**

(In Thousands of New Taiwan Dollars and US dollars)

Number	Name of lender	Name of borrower	Account name	Related party	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	Yes	5,952 (US\$200)	5,952 (US\$200)	-	2%	Short-term financing	-	Operating turnover	-		-	113,335	226,670

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. 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 USD29.76 on December 31,2017.

**(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)	Subsidiary endorsements/ guarantees to third parties on behalf of parent company (note)	Endorsements/ guarantees to third parties on behalf of companies in Mainland China (note)
		Name	Relationship with the Company										
0	The Company	AG Neovo B.V	100% owned subsidiary	566,677	209,520 (US\$2,000) (NT\$150,000)	150,000	14,299	-	26.47 %	566,677	Yes	No	No
0	"	AG Neovo USA	"	566,677	30,000	30,000	-	-	5.29 %	566,677	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, 2017 (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	18.52 %	-	5,000	19.23 %	
"	Ironvun Incorporated	-	"	5,000	30,700	5.92 %	-	5,000	5.99 %	

**(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.**

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- (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)	(289,946)	(87) %	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, 2017, the amount of unearned sales revenue was NT\$109,041 thousands.

Note 2 : The left transactions have been eliminated in the 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: As of December 31, 2017, the Group did not have any unsettled derivative financial instruments.
- (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	289,946	The price is marked up based on the operating cost, and the receivables depend on the funding demand with in the credit period.	38.96 %
0	"	"	1	Unearned sales revenue	109,041	"	13.77 %
0	"	AG Neovo USA	1	Operating revenue	18,372	"	2.47 %
0	"	"	1	Unearned sales revenue	9,399	"	1.19 %

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, 2017 (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, 2017			Highest balance during the year		Net income (losses) of Investee (Note2)	Investment Income(losses) (Note2)	Note
				December 31, 2017 (Note 1)	December 31, 2016 (Note 1)	Shares	Percentage of ownership	Carrying value (Note 1)	Shares	Percentage of ownership			
The Company	GMF	British Virgin Islands	Investment	313,522	313,522	0.7	100 %	24,346	0.7	100 %	(3,868)	(3,868)	Note 3
"	AG Neovo B.V	Netherlands	Sales LCD monitors	187,013	187,013	4.8	100 %	187,587	4.8	100 %	15,077	15,077	"
"	AG Neovo Investment	British Virgin Islands	Investment	14,796	14,796	0.5	100 %	15,645	0.5	100 %	797	797	"
GMF	AG Neovo International	British Virgin Islands	Investment	14,285 (US\$ 480)	14,285 (US\$ 480)	0.01	100 %	7 (US\$ -)	0.01	100 %	(US\$ -)	Recognized by shareholding percentage by GMF	"
"	AG Neovo USA	U.S.A.	Sales LCD monitors and medical equipment	59,520 (US\$ 2,000)	59,520 (US\$ 2,000)	701	100 %	23,302 (US\$ 783)	701	100 %	(3,892) (US\$ (128))		"

Note1: The amounts in New Taiwan Dollars were translated at the exchange rates of USD29.76 on December 31,2017.

Note2: The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.4101 based on the yearly average exchange rate.

Note3: The left transactions have been eliminated in 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, 2016 (Note 2)	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017 (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 ownership			
AG Neovo (Shanghai)	Sales LCD monitors	14,880 (US\$500)	Note 1	14,880 (US\$500)	-	-	14,880 (US\$500)	547 (US\$18)	100.00%	-	100%	547 (US\$18)	16,011 (US\$538)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2017 (Notes 2 and 4)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 2 and 4)	Upper Limit on Investment
120,111 (US\$4,036)	120,111 (US\$4,036)	340,006

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 USD29.76 on December 31,2017.

Note 3 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.4101 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:

	2017					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
<b>Revenue</b>						
Revenue from external customers	\$ 645,868	50,299	25,380	22,724	-	744,271
Revenue from segments	<u>3,728</u>	<u>319</u>	<u>308,318</u>	<u>1,105</u>	<u>(313,470)</u>	<u>-</u>
	<u>\$ 649,596</u>	<u>50,618</u>	<u>333,698</u>	<u>23,829</u>	<u>(313,470)</u>	<u>744,271</u>
Interest expense	(967)	-	(1,445)	-	-	(2,412)
Depreciation and amortization	(411)	(681)	(10,077)	(42)	-	(11,211)
<b>Reportable segment profit (loss)</b>	<u>\$ 20,532</u>	<u>(3,844)</u>	<u>8,594</u>	<u>1,241</u>	<u>(12,006)</u>	<u>14,517</u>
<b>Reportable segment assets</b>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Reportable segment liabilities</b>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	2016					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
<b>Revenue</b>						
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)
<b>Reportable segment profit (loss)</b>	<u>\$ 7,896</u>	<u>(10,312)</u>	<u>(8,255)</u>	<u>1,111</u>	<u>1,013</u>	<u>(8,547)</u>
<b>Reportable segment assets</b>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Reportable segment liabilities</b>	<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>2017</u>	<u>2016</u>
LCD monitors	\$ 718,128	736,459
Medical equipment	9,411	8,940
Others accessories	12,749	8,867
Rental revenue	<u>3,983</u>	<u>3,697</u>
	<u>\$ 744,271</u>	<u>757,963</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>2017</u>	<u>2016</u>
Netherlands	\$ 156,668	194,724
Germany	196,506	162,367
United States	43,475	49,515
Others	<u>347,622</u>	<u>351,357</u>
	<u>\$ 744,271</u>	<u>757,963</u>

Non-current assets:

<u>Area</u>	<u>2017</u>	<u>2016</u>
Taiwan	\$ 291,408	299,151
Others	<u>3,165</u>	<u>3,939</u>
	<u>\$ 294,573</u>	<u>303,090</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

The details of sales revenue from external customers exceeded 10% of the amount of the consolidated statement of comprehensive income as follows:

<u>Customer</u>	<u>2017</u>	<u>2016</u>
A Company	\$ 86,297	126,054
B Company	<u>86,655</u>	<u>81,382</u>
	<u>\$ 172,952</u>	<u>207,436</u>