

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

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

Consolidated Financial Statements

**With Independent Auditors' Review Report
for the Three Months Ended
March 31, 2018 and 2017**

Address: 5F-1, No. 3-1, Park Street, Nangang District, Taipei, 11503
Telephone: (02)2655-8080

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

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安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of the Associated Industries China, Inc. (the "Company") and its subsidiaries (together referred to as the "Group") as of March 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. The 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 International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect the total assets amounting to \$37,171 thousand and \$35,711 thousand, constituting 4.12% and 4.68% of the consolidated total assets; the total liabilities amounting to \$4,290 thousand and \$3,405 thousand, constituting 1.49% and 1.54% of the consolidated total liabilities as of March 31, 2018 and 2017, respectively; as well as the total comprehensive income(loss) amounting to \$(1,566) thousand and \$(4,971) thousand, constituting 38.31% and 57.69% of the absolute value of the consolidated total comprehensive income (loss) for the three months ended March 31, 2018 and 2017, respectively.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the review resulting in this independent auditors’ review report are Kuan-Ying Kuo and Jui-Lan Lo.

KPMG

Taipei, Taiwan (Republic of China)

May 7, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors’ review 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’ review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of March 31, 2018 and 2017

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2018, December 31, 2017, and March 31, 2017

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2018		December 31, 2017		March 31, 2017	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note 6(a))	\$ 106,285	12	108,369	14	79,146	10
1110 Current financial assets at fair value through profit or loss (note 6(b))	258	-	-	-	-	-
1170 Notes and accounts receivable, net (note 6(e))	92,120	10	86,269	11	76,758	10
1200 Other receivables	461	-	406	-	231	-
1300 Inventories, net (note 6(f))	261,066	29	210,915	27	213,516	28
1410 Prepayments	11,630	2	6,045	1	10,663	2
1470 Other current assets (note 8)	2,132	-	1,705	-	3,062	-
	<u>473,952</u>	<u>53</u>	<u>413,709</u>	<u>53</u>	<u>383,376</u>	<u>50</u>
Non-current assets:						
1517 Non-current financial assets at fair value through other comprehensive income (note 6(c))	124,974	14	-	-	-	-
1543 Financial assets carried at cost-non-current (note 6(d))	-	-	80,700	10	80,700	11
1600 Property, plant and equipment (notes 6(g) and 8)	123,841	14	123,900	16	124,880	16
1760 Investment property, net (notes 6(b) and 8)	165,720	18	166,016	21	166,903	22
1780 Intangible assets (note 6(i))	2,995	-	2,274	-	6,054	1
1900 Other non-current assets	697	-	2,383	-	1,659	-
1960 Non-current prepayments for investments (note 6(c))	9,676	1	3,010	-	-	-
	<u>427,903</u>	<u>47</u>	<u>378,283</u>	<u>47</u>	<u>380,196</u>	<u>50</u>
Total assets	<u>\$ 901,855</u>	<u>100</u>	<u>791,992</u>	<u>100</u>	<u>763,572</u>	<u>100</u>
Liabilities						
Current liabilities:						
2100 Short-term borrowings (note 6(j))	\$ 85,837	10	88,299	11	95,673	13
2120 Current financial liabilities at fair value through profit or loss (note 6(b))	-	-	-	-	355	-
2170 Notes and accounts payable	130,929	15	66,681	8	77,111	10
2200 Other payables	65,401	7	61,113	7	39,546	5
2250 Current provisions (note 6(k))	2,589	-	4,108	1	3,991	1
2300 Other current liabilities	1,664	-	4,169	1	2,859	-
	<u>286,420</u>	<u>32</u>	<u>224,370</u>	<u>28</u>	<u>219,535</u>	<u>29</u>
Non-current liabilities:						
2600 Other non-current liabilities	945	-	945	-	945	-
	<u>945</u>	<u>-</u>	<u>945</u>	<u>-</u>	<u>945</u>	<u>-</u>
Total liabilities	<u>287,365</u>	<u>32</u>	<u>225,315</u>	<u>28</u>	<u>220,480</u>	<u>29</u>
Equity attributable to owners of parent: (notes 6(o) and (p))						
Common stock	528,048	58	528,048	67	531,626	70
Capital surplus	26,295	3	26,107	3	25,162	3
Retained earnings:						
Legal reserve	51,494	6	51,494	7	51,494	7
Special reserve	45,440	5	45,440	6	58,095	7
Accumulated deficits	(17,495)	(2)	(20,266)	(3)	(40,643)	(5)
	<u>79,439</u>	<u>9</u>	<u>76,668</u>	<u>10</u>	<u>68,946</u>	<u>9</u>
Other equity interest	(19,292)	(2)	(64,146)	(8)	(82,642)	(11)
Total equity	<u>614,490</u>	<u>68</u>	<u>566,677</u>	<u>72</u>	<u>543,092</u>	<u>71</u>
Total liabilities and equity	<u>\$ 901,855</u>	<u>100</u>	<u>791,992</u>	<u>100</u>	<u>763,572</u>	<u>100</u>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2018 and 2017

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

		For the three months ended March 31			
		2018		2017	
		Amount	%	Amount	%
	Operating revenues, net (note 6(r)):				
4110	Sales revenue	\$ 190,198	104	165,153	102
4190	Less: sales returns and allowances	7,850	4	5,245	3
4310	Rental income (note 6(l))	1,011	-	950	1
		<u>183,359</u>	<u>100</u>	<u>160,858</u>	<u>100</u>
5000	Cost of sales (notes 6(f) and (l))	<u>125,552</u>	<u>69</u>	<u>113,065</u>	<u>70</u>
5950	Gross profit	<u>57,807</u>	<u>31</u>	<u>47,793</u>	<u>30</u>
	Operating expenses (note 12):				
6100	Selling expenses	34,373	19	31,544	20
6200	Administrative expenses	15,172	8	14,184	9
6300	Research and development expenses	3,853	2	2,123	1
		<u>53,398</u>	<u>29</u>	<u>47,851</u>	<u>30</u>
6900	Net operating income (loss)	<u>4,409</u>	<u>2</u>	<u>(58)</u>	<u>-</u>
	Non-operating income and expenses:				
7100	Interest income	25	-	13	-
7190	Other income	74	-	3,643	2
7230	Foreign exchange gains(losses), net	(319)	-	(2,022)	(1)
7235	Gains (losses) on financial assets at fair value through profit or loss	(115)	-	(19)	-
7510	Interest expense	(385)	-	(362)	-
		<u>(720)</u>	<u>-</u>	<u>1,253</u>	<u>1</u>
7900	Profit before tax	3,689	2	1,195	1
7950	Less: income tax expense (note 6(n))	918	1	323	-
	Profit	<u>2,771</u>	<u>1</u>	<u>872</u>	<u>1</u>
8300	Other comprehensive income(loss):				
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign financial statements	1,316	1	(9,489)	(6)
8300	Other comprehensive income (loss), net	<u>1,316</u>	<u>1</u>	<u>(9,489)</u>	<u>(6)</u>
8500	Comprehensive income (loss)	<u>\$ 4,087</u>	<u>2</u>	<u>(8,617)</u>	<u>(5)</u>
	Earnings per share (note 6(q))				
9750	Basic earnings per share	<u>\$ 0.05</u>		<u>0.02</u>	
9850	Diluted earnings per share	<u>\$ 0.05</u>		<u>0.02</u>	

See accompanying notes to consolidated financial statements.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings				Other equity interest			Total equity	
	Common stock	Capital surplus	Legal reserve	Special reserve	Accumulated deficits	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income		Unearned employee benefit
Balance at January 1, 2017	\$ 531,626	24,662	51,494	58,095	(41,515)	(69,624)	-	(3,048)	551,690
Profit for the three months ended March 31, 2017	-	-	-	-	872	-	-	-	872
Other comprehensive income for the three months ended March 31, 2017	-	-	-	-	-	(9,489)	-	-	(9,489)
Comprehensive income (loss) for the three months ended March 31, 2017	-	-	-	-	872	(9,489)	-	-	(8,617)
Share-based payments transactions	-	500	-	-	-	-	-	-	(481)
Balance at March 31, 2017	\$ 531,626	25,162	51,494	58,095	(40,643)	(79,113)	-	(3,529)	543,092
Balance at January 1, 2018	\$ 528,048	26,107	51,494	45,440	(20,266)	(63,309)	-	(837)	566,677
Effects of retrospective application	-	-	-	-	-	-	44,274	-	44,274
Balance at January 1, 2018 after adjustments	\$ 528,048	26,107	51,494	45,440	(20,266)	(63,309)	44,274	(837)	610,951
Profit for the three months ended March 31, 2018	-	-	-	-	2,771	-	-	-	2,771
Other comprehensive income for the three months ended March 31, 2018	-	-	-	-	-	1,316	-	-	1,316
Comprehensive income for the three months ended March 31, 2018	-	-	-	-	2,771	1,316	-	-	4,087
Share-based payments transactions	-	188	-	-	-	-	-	-	(736)
Balance at March 31, 2018	\$ 528,048	26,295	51,494	45,440	(17,495)	(61,993)	44,274	(1,573)	614,490

See accompanying notes to consolidated financial statements.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 3,689	1,195
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	906	1,072
Amortization expense	292	2,360
Expected credit loss/ Provision (reversal of provision) for bad debt expense	15	(302)
Interest expense	385	362
Interest income	(25)	(13)
Share-based payment transactions	(548)	19
Total adjustments to reconcile profit (loss)	<u>1,025</u>	<u>3,498</u>
Changes in operating assets and liabilities:		
Increase in financial assets at fair value through profit or loss	(258)	-
Decrease (increase) in notes and accounts receivable	(5,866)	12,922
Increase in other receivables	(54)	(55)
Increase in inventories	(50,151)	(29,452)
Increase in prepayments	(5,351)	(3,370)
Increase in other current assets	(427)	(1,895)
Increase in financial liabilities at fair value through profit or loss	-	355
Increase in notes and accounts payable	64,248	13,349
Increase (decrease) in other payables	3,257	(6,724)
Decrease in provisions	(1,506)	(999)
Decrease in other operating liabilities	(2,505)	(613)
Total adjustments	<u>2,412</u>	<u>(12,984)</u>
Cash flows from (used in) operations	6,101	(11,789)
Interest received	24	13
Interest paid	(326)	(356)
Income taxes paid	(180)	(92)
Net cash flows from (used in) operating activities	<u>5,619</u>	<u>(12,224)</u>
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(543)	(90)
Decrease in refundable deposits	1,686	676
Acquisition of intangible assets	(1,013)	(513)
Prepayment of investments	(6,666)	-
Net cash flows from (used in) investing activities	<u>(6,536)</u>	<u>73</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	(2,462)	5,944
Net cash flows from (used in) financing activities	<u>(2,462)</u>	<u>5,944</u>
Effect of exchange rate changes on cash and cash equivalents	1,295	(9,434)
Net decrease in cash and cash equivalents	(2,084)	(15,641)
Cash and cash equivalents at beginning of period	108,369	94,787
Cash and cash equivalents at end of period	<u>\$ 106,285</u>	<u>79,146</u>

See accompanying notes to consolidated financial statements.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2018 and 2017

(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 May 7, 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 on or after January 1, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of 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

(Continued)

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

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 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on the changing of accounting policies:

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 at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The adoption of IFRS 15 did not have any significant impact on its accounting policies on the consolidated financial statement.

(ii) 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.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group’s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

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

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous 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 asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument, as a whole, is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(c).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(c).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- The differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as of January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, and therefore, is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed 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.

(Continued)

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

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	IAS39		IFRS9	
	Measurement categories	Carrying amount	Measurement categories	Carrying amount
Financial Assets				
Cash and cash equivalents	Loans and receivables (note 2)	108,369	Amortized cost	108,369
Equity instruments	Available-for-sale (note 1)	80,700	FVOCI	124,974
Trade and other receivables	Loans and receivables (note 2)	86,269	Amortized cost	86,269
Other receivables	Loans and receivables (note 2)	406	Amortized cost	406
Other current financial assets (restricted bank deposits)	Loans and receivables (note 2)	151	Amortized cost	151

Note1: These equity securities (including financial assets measured at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI, resulting in an increase of \$44,274 in those assets and the reserves recognized on January 1, 2018.

Note2: Notes receivable, accounts receivable, other receivables and restricted bank deposits that were classified as loans and receivables under IAS 39 are now classified at amortized cost. The Group does not recognize any allowance for impairment in opening retained earnings upon transition to IFRS 9 on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Other equity
Fair value through other comprehensive income					
Beginning balance of available for sale (including measured at cost) (IAS 39)	\$ 80,700	-	-	-	-
Available for sale to FVOCI	-	-	44,274	-	44,274
Total	\$ 80,700	-	44,274	124,974	44,274

(Continued)

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

(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 present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(w).

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

As of the date, the following IFRSs 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"> • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

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ASSOCIATED INDUSTRIES CHINA, INC. AND 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:

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2017. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2017.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(b) Basis of consolidation

List of subsidiaries in the consolidated financial statements:

Name of investor	Name of subsidiary	Principal activity	Shareholding			Note
			March 31, 2018	December 31, 2017	March 31, 2017	
The Company	Global Maritime Finance Co., Ltd (GMF)	Investment	100 %	100 %	100 %	
"	AG Neovo Technology. BV. (AG Neovo B.V)	Sale of LCD monitors	100 %	100 %	100 %	
"	AG Neovo Investment Co., Ltd (AG Neovo Investment)	Investment	100 %	100 %	100 %	
AG Neovo Investment	AG Neovo Technology (Shanghai) Co., Ltd (AG Neovo Shanghai)	Sale of LCD monitors	100 %	100 %	100 %	(Note 1)
GMF	AG Neovo International Ltd. (AG Neovo International)	Investment	100 %	100 %	100 %	
GMF	AG Neovo Technology Corp. (AG Neovo USA)	Sale of LCD monitors and medical equipment	100 %	100 %	100 %	(Note 1)

Note 1: An immaterial subsidiary wherein its financial statements have not been reviewed.

(c) Financial instruments (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

· it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

· its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments, are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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4) Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered as sales for this purpose, and are consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

5) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivables, guarantee deposit paid and other financial assets), and contract assets.

The Group measures its loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- bank balances and other receivables for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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12-month ECLs are the portion of ECLs that result from default events that are possible within 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment, as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 180 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost is credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;
or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

6) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(d) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods

The Group recognizes revenue when control of the products has been transferred, when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(e) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34, Interim Reporting.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be (i) measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and (ii) recognized directly in equity or other comprehensive income as tax expense.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and 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 preparation of the consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2017.

(6) Explanation of significant accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to Note 6 of the 2017 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Petty cash, checking accounts and demand deposits	\$ 102,892	104,987	75,785
Time deposits	<u>3,393</u>	<u>3,382</u>	<u>3,361</u>
	<u>\$ 106,285</u>	<u>108,369</u>	<u>79,146</u>

(b) Financial assets and liabilities at fair value through profit or loss-current

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Mandatorily measured at fair value through profit or loss			
Derivative instruments not used for hedging:			
Forward exchange contracts	\$ <u>258</u>	<u>-</u>	<u>-</u>
Financial liabilities designated as at fair value through profit or loss			
Held-for-trading financial liabilities:			
Derivative instruments not used for hedging	\$ <u>-</u>	<u>-</u>	<u>355</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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The Group holds derivative financial instruments to hedge certain foreign exchange risk the Group is exposed to, arising from its operating activities. The following derivative instruments, without the application of hedge accounting, were classified as mandatorily measured at fair value through profit or loss on March 31, 2018 and held-for-trading financial instruments on March 31, 2017:

		March 31, 2018		
		<u>Contract amount (in thousands)</u>	<u>Currency</u>	<u>Maturity date</u>
Financial assets:				
Forward exchange sold	EUR	<u>2,797</u>	EUR to USD	2018.04.03~2018.05.15
		March 31, 2017		
		<u>Contract amount (in thousands)</u>	<u>Currency</u>	<u>Maturity date</u>
Financial liabilities:				
Forward exchange sold	EUR	<u>1,273</u>	EUR to USD	2017.04.05~2017.05.05

(c) Financial assets at fair value through other comprehensive income

		<u>March 31, 2018</u>
Equity investments at fair value through other comprehensive income:		
Unlisted common shares		
Domestic Company-tBPC		\$ 91,000
Foreign Company-IRONYUN		<u>33,974</u>
		<u>\$ 124,974</u>

(i) Equity investments at fair value through other comprehensive income

On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as financial assets carried at cost-non-current on December 31 and March 31, 2017.

- (ii) The Group purchased newly issued shares of Taiwan Biophotonic Corporation (tBPC) and IRONYUN INCORPORATED (IRONYUN) in March 2018 and November 2017, amounting to \$6,666 and \$3,010, respectively. The investments were accounted for as non-current prepayments for investments since the Group has yet to acquire the shares.
- (iii) No strategic investments were disposed as of March 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.
- (iv) As of March 31, 2018, the Group did not provide any of the aforementioned financial assets as collaterals for its loans.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(v) For credit risk and market risk; please refer to note 6 (t).

(d) Financial assets carried at cost-non-current

	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Available-for-sale financial assets:		
Common stock unlisted on domestic markets	\$ 50,000	50,000
Preferred stock unlisted on foreign markets	<u>30,700</u>	<u>30,700</u>
	<u>\$ 80,700</u>	<u>80,700</u>

(i) The aforementioned investments held by the Group were measured at amortized cost as of December 31 and March 31, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined; therefore, the Group management had determined that the fair value cannot be measured reliably. These investments were classified as financial assets at fair value through other comprehensive income or at fair value through profit or loss on March 31, 2018.

(ii) As of December 31, and March 31, 2017, the Group did not provide any financial assets measured at cost – non-current as collaterals for its loans.

(e) Note and accounts receivables

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Note receivables from operating activities	\$ 256	189	-
Notes receivables-measured as amortized cost	<u>91,930</u>	<u>86,146</u>	<u>76,878</u>
	92,186	86,335	76,878
Less: Loss allowance	(66)	(51)	(117)
Allowance for sales discounts	<u>-</u>	<u>(15)</u>	<u>(3)</u>
	<u>\$ 92,120</u>	<u>86,269</u>	<u>76,758</u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on March 31, 2018. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision as of March 31, 2018 was determined as follows:

	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 73,878	0.01%	9
1 to 30 days past due	16,043	0.11%	18
31 to 90 days past due	<u>2,265</u>	1.72%	<u>39</u>
	<u>\$ 92,186</u>		<u>66</u>

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As of December 31 and March 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and accounts receivable, and the aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	December 31, 2017	March 31, 2017
Current	\$ 75,477	64,270
Past due 1 to 30 days	11,007	9,354
Past due 30 to 90 days	257	3,011
Past due 91 to 180 days	-	426
Past due 181 to 360 days	-	48
	<u>\$ 86,741</u>	<u>77,109</u>

The movement in the allowance for notes and accounts receivable was as follows:

	For the three months ended March 31, 2018	For the three months ended March 31, 2017
Balance on January 1, 2018 and 2017 per IAS 39	\$ 51	419
Adjustment on initial application of IFRS 9	-	
Balance on January 1, 2018 per IFRS 9	51	
Impairment loss recognized	15	-
Impairment loss reversed	-	(302)
Balance on March 31, 2018 and 2017	<u>\$ 66</u>	<u>117</u>

As of March 31, 2018, December 31 and March 31, 2017, the Group did not provide any of the aforementioned notes and accounts receivable as collaterals for its loans.

(f) Inventories

	March 31, 2018	December 31, 2017	March 31, 2017
Merchandise inventories	<u>\$ 261,066</u>	<u>210,915</u>	<u>213,516</u>

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The details of cost of sales for the three months ended March 31, 2018 and 2017, were as follows:

	For the three months ended March 31,	
	2018	2017
Cost of goods sold and expenses	\$ 125,993	115,165
Inventory valuation loss and obsolescence reversed	(842)	(2,502)
	\$ 125,151	112,663

For the three months ended March 31, 2018 and 2017, the Group reversed allowance for inventory valuation loss and obsolescence amounting to \$842 and \$2,502, respectively.

As of March 31, 2018, December 31 and March 31, 2017, the Group did not provide any inventories as collaterals for its loans.

(g) Property, plant and equipment

	Land	Buildings and building improvement	Machinery and R&D equipment	Molding equipment and other equipment	Total
Carrying amounts:					
Balance on January 1, 2018	\$ 95,104	24,745	1,452	2,599	123,900
Balance on March 31, 2018	\$ 95,104	24,995	1,331	2,411	123,841
Balance on January 1, 2017	\$ 95,104	25,096	2,451	3,004	125,655
Balance on March 31, 2017	\$ 95,104	24,869	2,121	2,786	124,880

There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the three months ended March 31, 2018 and 2017. Information on depreciation for the period is discussed in Note 12(a). Please refer to Note 6(e) of the 2017 annual consolidated financial statements for other related information.

As of March 31, 2018, December 31 and March 31, 2017, the property, plant and equipment has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

(h) Investment property

	Land	Buildings and construction	Total
Carrying amounts:			
Balance on January 1, 2018	\$ 111,400	54,616	166,016
Balance on March 31, 2018	\$ 111,400	54,320	165,720
Balance on January 1, 2017	\$ 111,400	55,799	167,199
Balance on March 31, 2017	\$ 111,400	55,503	166,903

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There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the three months ended March 31, 2018 and 2017. Information on depreciation for the period is discussed in Note 12(a). Please refer to Note 6(f) of the 2017 annual consolidated financial statements for other related information.

As of March 31, 2018, December 31 and March 31, 2017, the investment property has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

(i) Intangible Assets

	<u>Product Development expense</u>	<u>Computer software and others</u>	<u>Total</u>
Carrying amounts:			
Balance on January 1, 2018	\$ -	2,274	2,274
Balance on March 31, 2018	\$ -	2,995	2,995
Balance on January 1, 2017	\$ 6,554	1,347	7,901
Balance on March 31, 2017	\$ 4,316	1,738	6,054

There were no significant additions, disposal, or recognition and reversal of impairment losses of intangible assets for the three months ended March 31, 2018 and 2017. Information on amortization for the period is discussed in Note 12(a). Please refer to Note 6(g) of the 2017 annual consolidated financial statements for other related information.

As of March 31, 2018, December 31 and March 31, 2017, the Group did not provide any intangible assets as collaterals for its loans.

(j) Short-term borrowings

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Unsecured bank loans	\$ 25,000	59,299	25,673
Secured bank loans	60,837	29,000	70,000
Total	\$ 85,837	88,299	95,673
Unused credit lines for short-term borrowings	\$ 346,940	347,701	346,657
Annual interest rates	1.74%~2.76%	1.10%~2.57%	1.10%~2.57%

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

(k) Provisions

There were no significant changes in provisions for the three months ended March 31, 2018 and 2017. Please refer to Note 6(i) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

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

(l) Operating lease

(i) The Group as lessee

Non-cancellable operating lease rentals payable were as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Less than one year	\$ 8,892	7,006	7,649
Between one and five years	<u>22,520</u>	<u>15,823</u>	<u>13,383</u>
	<u>\$ 31,412</u>	<u>22,829</u>	<u>21,032</u>

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

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

For the three months ended March 31, 2018 and 2017, expenses recognized in profit or loss with respect to operating leases amounted to \$3,205 and \$3,028, respectively.

(ii) The Group as lessor

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

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Less than one year	\$ 4,044	4,044	4,044
Between one and five years	<u>11,947</u>	<u>12,958</u>	<u>15,991</u>
	<u>\$ 15,991</u>	<u>17,002</u>	<u>20,035</u>

For the three months ended March 31, 2018 and 2017, the rentals recognized in operating revenue amounted to \$1,011 and \$950, respectively; the direct costs incurred in rental, which were recognized as operating costs, amounted to \$401 and \$402, respectively.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(m) 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 expenses recognized in profit or loss for the Group were as follows:

	For the three months ended March 31,	
	2018	2017
Selling expenses	\$ 244	136
Administrative expenses	324	381
Research and development expenses	138	70
	\$ 706	587

(n) Income taxes

(i) Income tax expenses

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, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018.

The amount of income tax for the three months ended March 31, 2018 and 2017 was as follows:

	For the three months ended March 31,	
	2018	2017
Tax expenses (benefit)	\$ 918	323

(ii) The ROC tax authorities have examined the Company's income tax returns through 2016.

(o) Capital and other equities

Except for the following disclosure, there was no significant change for capital and other equity for the periods from January 1 to March 31, 2018 and 2017. For the related information, please refer to note 6(m) of the consolidated financial statements for the year ended December 31, 2017.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(i) Capital surplus

The balances of capital surplus were as follows:

	<u>March 31,</u> <u>2018</u>	<u>December</u> <u>31, 2017</u>	<u>March 31,</u> <u>2017</u>
Additional paid-in capital	\$ 20,986	20,986	20,986
Restricted employee shares	530	530	1,086
Employee stock options	<u>4,779</u>	<u>4,591</u>	<u>3,090</u>
	<u>\$ 26,295</u>	<u>26,107</u>	<u>25,162</u>

(ii) 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.

Based on the resolution made during the directors' meetings held on March 23, 2018 and the resolution made during the annual stockholders' meeting held on June 14, 2017, respectively, the loss on the appropriation of dividends in 2017 and 2016 need not to be allocated.

(p) Share-based payment

There were no significant changes for share-based payment during the periods from January 1 to March 31, 2018 and 2017. For the related information, please refer to note 6(n) of the consolidated financial statements for the years ended December 31, 2017.

(q) Earnings per share

For the three months ended March 31, 2018 and 2017, the Group's earnings per share were calculated as follows:

	<u>For the three months</u> <u>ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Basic earnings per share:		
Net income	\$ <u>2,771</u>	<u>872</u>
Weighted-average number of shares outstanding (thousands)	<u>52,471</u>	<u>52,471</u>
Basic earnings per share (dollars)	<u>\$ 0.05</u>	<u>0.02</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	For the three months ended March 31,	
	2018	2017
Diluted earnings per share:		
Weighted-average number of shares outstanding (thousands)	\$ 52,471	52,471
Effect of restricted employee shares unvested	<u>266</u>	<u>362</u>
Weighted-average number of shares outstanding (thousand)	<u>52,737</u>	<u>52,833</u>
Diluted earnings per share (dollars)	<u>\$ 0.05</u>	<u>0.02</u>

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

(r) Revenue

(i) Disaggregation of revenue

	For the three months ended March 31, 2018	
Primary geographical markets		
Netherland	\$ 54,689	
Germany	34,869	
United States	8,887	
Others	<u>84,914</u>	
	<u>\$ 183,359</u>	
Major products		
LCD monitors	\$ 178,058	
Medical equipment	2,048	
Others accessories	2,242	
Rental revenue	<u>1,011</u>	
	<u>\$ 183,359</u>	

(ii) Contract balances

	March 31, 2018	January1, 2018
Notes and accounts receivable	\$ 92,186	86,335
Less: allowance for impairment	<u>(66)</u>	<u>(51)</u>
	<u>\$ 92,120</u>	<u>86,284</u>

Please refer to note 6(e) for the information of accounts receivable and the impairment.

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

(s) 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 three month ended March 31, 2018 and the year ended December 31, 2017, the Company had net income before tax. The Company had accumulated deficits yet, thus, no remuneration to employees, and directors and supervisors were recognized. The information is available at the Market Observation Post System Website.

(t) Financial Instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(r) of the consolidated financial statements for the year ended December 31, 2017.

(i) Credit risk

For credit risk exposure of note and accounts receivables, please refer to note 6(e).

(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>
March 31, 2018				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 85,837	(85,837)	(85,837)	-
Notes and accounts payable	130,929	(130,929)	(130,929)	-
Other payables	61,388	(61,388)	(61,388)	-
Guarantee deposits	945	(945)	-	(945)
	<u>\$ 279,099</u>	<u>(279,099)</u>	<u>(278,154)</u>	<u>(945)</u>

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
December 31, 2017				
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>
March 31, 2017				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 95,673	(95,673)	(95,673)	-
Notes and accounts payable	77,111	(77,111)	(77,111)	-
Other payables	36,226	(36,226)	(36,226)	-
Guarantee deposits	945	(945)	-	(945)
Derivative financial liabilities:				
Forward exchange contracts	355			
Outflow	-	(41,283)	(41,283)	-
Inflow	<u>-</u>	<u>40,919</u>	<u>40,919</u>	<u>-</u>
	<u>\$ 210,310</u>	<u>(210,319)</u>	<u>(209,374)</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) Market risk

1) Currency risk (expressed in thousands for foreign currencies)

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

	<u>March 31, 2018</u>			<u>December 31, 2017</u>			<u>March 31, 2017</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
Financial assets									
Monetary items									
USD	\$	450 USD/TWD =29.105	13,092	1,238 USD/TWD =29.760		36,855	212 USD/TWD =30.3300		6,419
USD		4 USD/EUR =1.2324	128	173 USD/EUR =1.1952		5,152	19 USD/EUR =1.0692		569

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	March 31, 2018			December 31, 2017			March 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial liabilities									
Monetary items									
USD	3,734	USD/TWD =29.105	108,692	1,208	USD/TWD =29.760	35,964	511	USD/TWD =30.33	15,523
USD	108	USD/EUR =1.2324	3,149	-	USD/EUR =1.1952	-	1,159	USD/EUR =1.0692	35,159

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 March 31, 2018 and 2017 would have affected the net profit before tax as follows:

	March 31, 2018	March 31, 2017
USD (against the TWD)		
Appreciate 5%	\$ (4,780)	(455)
Depreciate 5%	4,780	455
USD (against the EUR)		
Appreciate 5%	(151)	(1,730)
Depreciate 5%	151	1,730

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. For the three months ended March 31, 2018 and 2017, the foreign exchange gains (losses), including realized and unrealized, amounted to \$(319) and \$(2,022), respectively.

(iv) Interest rate analysis

Please refer to liquidity risk for the details of financial assets and liabilities exposed to interest rate risk.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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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 and \$24 for the three months ended March 31, 2018 and 2017, respectively, which 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 and of financial assets at fair value through other comprehensive income are measured on a recurring basis.

Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

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

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 :

	March 31, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Derivative financial assets	\$ 258	-	258	-	258
Financial assets at fair value through other comprehensive income					
Unquoted equity instruments at fair value	<u>124,974</u>	-	-	124,974	124,974

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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		March 31, 2018				
		<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 measured at						
amortized cost						
Cash and cash equivalents	106,285		-	-	-	-
Notes and accounts receivable	92,120		-	-	-	-
Other receivables	461		-	-	-	-
Restricted bank deposits (recognized as other current assets)	151		-	-	-	-
Subtotal	<u>199,017</u>					
	<u>\$ 324,249</u>					
Financial liabilities measured						
at amortized cost						
Short-term borrowing	85,837		-	-	-	-
Notes and accounts payable	130,929					
Other payables	61,388		-	-	-	-
Guaranteed deposits	945					
	<u>\$ 279,099</u>					
		December 31, 2017				
		<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						
	<u>\$ 80,700</u>		-	-	-	-
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)	151		-	-	-	-
Subtotal	<u>195,195</u>					
	<u>\$ 275,895</u>					
Financial liabilities at amortized						
cost through profit or loss						
Short-term borrowings	\$ 88,299		-	-	-	-
Notes and accounts payable	66,681		-	-	-	-
Other payables	53,883		-	-	-	-
Guaranteed deposits	945		-	-	-	-
	<u>\$ 209,808</u>					

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	March 31, 2017				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets carried at cost	\$ 80,700	-	-	-	-
Loans and receivables					
Cash and cash equivalents	79,146	-	-	-	-
Notes and accounts receivable	76,758	-	-	-	-
Other receivables	231	-	-	-	-
Restricted bank deposits (recognized as other current assets)	151	-	-	-	-
Subtotal	<u>156,286</u>				
	<u>\$ 236,986</u>				
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ 355	-	355	-	355
Financial liabilities at amortized cost through profit or loss					
Short-term borrowings	95,673	-	-	-	-
Notes and accounts payable	77,111	-	-	-	-
Other payables	36,226	-	-	-	-
Guaranteed deposits	945	-	-	-	-
Subtotal	<u>209,955</u>				
	<u>\$ 210,310</u>				

- 2) Fair value valuation technique for financial instruments not measured at fair value

The book value of financial assets and liabilities at amortized cost through profit or loss in the consolidated report is approximately its fair value.

- 3) Fair value valuation technique for financial instruments measured at fair value

- a) Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an active market.

Measurements of fair value of financial instruments without an active market are based on a valuation technique or quoted price from a competitor. Fair value measured by using a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the reporting date.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Derivative financial instruments

Measurement of fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. Fair value of forward currency exchange is usually determined by using the forward currency rate.

4) There were no transfer from one level to another for the three months ended March 31, 2018 and 2017.

5) Reconciliation of Level 3 fair values

	For the three months ended March 31, 2018
Opening balance on January 1 and March 31, 2018	\$ <u><u>124,974</u></u>

6) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure their fair value include "financial assets measured at fair value through other comprehensive income-equity security investments".

Financial assets at fair value through other comprehensive income-equity investments without an active market have more than one significant unobservable inputs. The significant unobservable inputs of financial assets at fair value through other comprehensive income-equity investments without an active market are individually independent, and there is no correlation between them.

Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income-equity instruments without an active market (common stock)	Discounted Cash Flow Method	<ul style="list-style-type: none"> • Weighted Average Cost of Capital (WACC) as of March 31, 2018 was 16.88% • Lack-of-Marketability discount rate as of March 31, 2018 was 20% 	The higher the WACC and the Lack-of-Market ability discount rate are, the lower the fair value will be.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income—equity instruments without an active market (Preferred stock)	Income Approach-perpetual annuity	Weighted Average Cost of Capital (WACC) as of March 31, 2018 was 4.21% Expected rate on return for preferred stock as of March 31, 2018 was 3%	The higher the WACC and the Expected rate on return are, the lower the fair value will be.

- 7) Fair value measurements in Level 3-sensitivity analysis of reasonably possible alternative assumptions

For fair value measurements in Level 3, changing one or more of the assumptions to reflect reasonably possible alternative assumptions would have the following effects:

March 31, 2018	<u>Inputs</u>	<u>Change</u>	<u>Other comprehensive income</u>	
			<u>Favour-able</u>	<u>Unfavour-able</u>
Financial assets at fair value through other comprehensive income				
Equity instruments without an active market (Common stock)	WACC	1%	4,250	(4,250)
	Lack-of-Marketability discount rate	10%	11,250	(11,250)
Equity instruments without an active market (Preferred stock)	WACC	1%	4,018	(4,018)
	Expected rate on return for preferred stock	1%	4,018	(4,018)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

- (u) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in note 6(s) of the consolidated financial statements for the year ended December 31, 2017.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(v) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2017. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2017. Please refer to Note 6(t) of the consolidated financial statements for the year ended December 31, 2017 for further details.

(w) Investing and financing activities not affecting current cash flow

- (i) The Group's investing and financing activities which did not affect the current cash flow for the three month months ended March 31, 2018 and 2017: None
- (ii) Reconciliation of liabilities arising from financing activities were as follows:

	<u>January 1, 2018</u>	<u>Cash flows</u>	<u>March 31, 2018</u>
Short-term borrowings	\$ 88,299	(2,462)	85,837

(7) Related-party transactions:

Key management personnel compensation

Key management personnel compensation comprised:

	<u>For the three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 2,690	2,989
Post-employment benefits	54	36
	<u>\$ 2,744</u>	<u>3,025</u>

(8) Pledged assets:

The carrying amounts of pledged assets were as follows:

<u>Account</u>	<u>Subject</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Land and buildings	Guarantee for short-term loans and the credit line	\$ 116,781	116,902	117,264
Investment property	Guarantee for short-term loans and the credit line	165,720	166,016	166,903
Restricted bank deposits	Warranty guarantee	151	151	151
		<u>\$ 282,652</u>	<u>283,069</u>	<u>284,318</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(9) Commitments and contingencies:

On March 31, 2018 and 2017, the unused balance of the Group's letters of credit amounted to \$3,223 and \$1,707, respectively.

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

Taiwan Biophotonic Corporation proposed to increase its capital through cash injection, wherein the Company decided to participate and increase its investment amounting to \$24,860 on May 7, 2018. The accumulated investment amounted to \$81,527, and the percentage of equity ownership for the investment had increased to 26.3%.

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:

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

By function	For the three months ended March 31,					
	2018			2017		
By item	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	-	24,887	24,887	-	22,787	22,787
Labor and health insurance	-	3,128	3,128	-	3,079	3,079
Pension	-	706	706	-	587	587
Others	-	914	914	-	676	676
Depreciation	296	610	906	296	776	1,072
Amortization	178	114	292	2,299	61	2,360

Note: The depreciation for the three months ended March 31, 2018 and 2017 included the depreciation of investment property amounting are both to \$296, respectively.

- (b) Seasonality of operations

The Group's operations were not affected by seasonality or cyclicity factors.

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

(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 for the three month ended March 31, 2018:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars and US dollars)

Number	Name of lender	Name of borrower	Account name	Related Parties	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	5,821 (US\$200)	5,821 (US\$200)	-	2%	Short-term financing	-	Operating turnover	-	-	-	122,898	245,796

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 USD29.105 on March 31, 2018.

(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	614,490	150,000	150,000	4,506	-	24.41 %	614,490	Yes	No	No
0	"	AG Neovo USA	"	614,490	30,000	30,000	-	-	4.88 %	614,490	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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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- (iii) Securities held as of March 31, 2018 (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				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Taiwan Biophotonic Corporation	-	Financial assets measured at fair value through other comprehensive income	5,000	91,000	18.52 %	91,000	
"	Ironyun Incorporated	-	"	5,000	33,974	5.92 %	33,974	

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock:None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None
- (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:Please refer to note 6(b).
- (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	95,636	The price is marked up based on the operating cost, and the receivables depend on the funding demand with in the credit period.	52.16 %
0	"	"	1	Unearned sales revenue	65,472	"	7.26 %
0	"	AG Neovo USA	1	Operating revenue	4,222	"	2.30 %
0	"	"	1	Unearned sales revenue	4,854	"	0.54 %

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.

(Continued)

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(b) Information on investees:

The following is the information on investees for the three months ended March 31, 2018 (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 March 31, 2018			Net income (losses) of Investee (Note2)	Investment Income(losses) (Note2)	Note
				March 31, 2018 (Note 1)	December 31, 2017 (Note 1)	Shares	Percentage of ownership	Carrying value (Note 1)			
The Company	GMF	British Virgin Islands	Investment	313,522	313,522	0.7	100 %	22,858	(997)	(997)	Note 3
"	AG Neovo B.V	Netherlands	Sales LCD monitors	187,013	187,013	4.8	100 %	191,686	2,585	2,585	"
"	AG Neovo Investment	British Virgin Islands	Investment	14,796	14,796	0.5	100 %	15,969	31	31	"
GMF	AG Neovo International	British Virgin Islands	Investment	13,970 (US\$ 480)	13,970 (US\$ 480)	0.01	100 %	7 (US\$ -)	- (US\$ -)	Recognized by shareholding percentage by GMF	"
"	AG Neovo USA	U.S.A.	Sales LCD monitors and medical equipment	58,210 (US\$ 2,000)	58,210 (US\$ 2,000)	701	100 %	21,603 (US\$ 742)	(1,193) (US\$ 41)	"	"

Note1: The amounts in New Taiwan Dollars were translated at the exchange rates of USD29.105 on March 31,2018.

Note2: The amounts in New Taiwan Dollars were translated at the exchange rates of USD29.301 based on the average exchange rate.

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

(c) Information on investment in mainland China:

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

(In Thousands of New Taiwan Dollars and US dollars)

Name of Investee	Main businesses and products	Total amount of paid-in capital (Note 2)	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2017 (Note 2)	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2018 (Note 2)	Net income (losses) of the investee (Note 3)	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
AG Neovo (Shanghai)	Sales LCD monitors	14,553 (US\$500)	Note 1	14,553 (US\$500)	-	-	14,553 (US\$500)	(175) (US\$6)	100%	(175) (US\$6)	16,124 (US\$554)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of March 31, 2018 (Notes 2 and 4)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 2 and 4)	Upper Limit on Investment
117,468 (US\$4,036)	117,468 (US\$4,036)	368,694

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 USD29.105 on March 31,2018.

Note 3 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD29.301 based on the average exchange rate.

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

(iii) Significant transactions:None

(Continued)

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(14) Segment information:

	For the three months ended March 31, 2018					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	\$ 162,360	9,719	5,230	6,050	-	183,359
Revenue from segments	<u>779</u>	<u>593</u>	<u>99,858</u>	<u>202</u>	<u>(101,432)</u>	<u>-</u>
	<u>\$ 163,139</u>	<u>10,312</u>	<u>105,088</u>	<u>6,252</u>	<u>(101,432)</u>	<u>183,359</u>
Reportable segment profit (loss)	<u>\$ 3,503</u>	<u>(997)</u>	<u>2,771</u>	<u>31</u>	<u>(1,619)</u>	<u>3,689</u>
	For the three months ended March 31, 2017					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	\$ 136,171	14,442	7,844	2,401	-	160,858
Revenue from segments	<u>865</u>	<u>96</u>	<u>59,600</u>	<u>223</u>	<u>(60,784)</u>	<u>-</u>
	<u>\$ 137,036</u>	<u>14,538</u>	<u>67,444</u>	<u>2,624</u>	<u>(60,784)</u>	<u>160,858</u>
Reportable segment profit (loss)	<u>\$ 5,580</u>	<u>(1,880)</u>	<u>872</u>	<u>(407)</u>	<u>(2,970)</u>	<u>1,195</u>

