

(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 Six Months Ended
June 30, 2018 and 2017**

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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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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 June 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2018 and 2017, the consolidated statements of changes in equity and cash flows for the six months ended June 30, 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 \$33,359 thousand and \$27,215 thousand, constituting 3.58% and 3.44% of the consolidated total assets; the total liabilities amounting to \$3,154 thousand and \$3,687 thousand, constituting 1.00% and 1.57% of the consolidated total liabilities as of June 30, 2018 and 2017, respectively; as well as the total comprehensive income(loss) amounting to \$(1,493) thousand, \$(564) thousand, \$(3,059) thousand and \$(5,535) thousand, constituting 273%, 4.67%, 66.03% and 160.18% of the absolute value of the consolidated total comprehensive income (loss) for the three months and six months ended June 30, 2018 and 2017, respectively.



Furthermore, as stated in Note 6(g), the other equity accounted investments of the Group in its investee companies of \$123,641 thousand as of June 30, 2018, and its equity in net earnings on these investee companies all of \$(1,336) thousand for the three months and six months ended June 30, 2018 and 2017, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies 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 June 30, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three months and six months ended June 30, 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 reviews resulting in this independent auditors' review report are Kuan-Ying Kuo and Jui-Lan Lo.

KPMG

Taipei, Taiwan (Republic of China)
August 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 June 30, 2018, and 2017

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2018, December 31, 2017, and June 30, 2017

(Expressed in Thousands of New Taiwan Dollars)

	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note 6(a))	\$ 90,588	10	108,369	14	67,336	9
1110 Current financial assets at fair value through profit or loss (note 6(b))	178	-	-	-	-	-
1170 Notes and accounts receivable, net (note 6(e))	79,029	8	86,269	11	96,263	12
1200 Other receivables	452	-	406	-	447	-
1300 Inventories, net (note 6(f))	295,705	32	210,915	27	235,737	30
1410 Prepayments	9,759	1	6,045	1	10,460	1
1470 Other current assets (note 8)	1,725	-	1,705	-	2,796	-
	<u>477,436</u>	<u>51</u>	<u>413,709</u>	<u>53</u>	<u>413,039</u>	<u>52</u>
Non-current assets:						
1517 Non-current financial assets at fair value through other comprehensive income (note 6(c))	33,974	4	-	-	-	-
1543 Financial assets carried at cost-non-current (note 6(d))	-	-	80,700	10	80,700	11
1550 Investments accounted for using equity method (note 6(c) and (g))	123,641	13	-	-	-	-
1600 Property, plant and equipment (notes 6(h) and 8)	123,214	13	123,900	16	124,279	16
1760 Investment property, net (notes 6(i) and 8)	165,424	18	166,016	21	166,607	21
1780 Intangible assets (note 6(j))	3,696	1	2,274	-	3,736	-
1900 Other non-current assets	698	-	2,383	-	1,746	-
1960 Non-current prepayments for investments (note 6(c))	3,010	-	3,010	-	-	-
	<u>453,657</u>	<u>49</u>	<u>378,283</u>	<u>47</u>	<u>377,068</u>	<u>48</u>
Total assets	<u>\$ 931,093</u>	<u>100</u>	<u>791,992</u>	<u>100</u>	<u>790,107</u>	<u>100</u>
Liabilities						
Current liabilities:						
2100 Short-term borrowings (note 6(k))	\$ -	-	-	-	-	-
2120 Current financial liabilities at fair value through profit or loss (note 6(b))	-	-	-	-	-	-
2170 Notes and accounts payable	103,593	11	66,681	8	89,453	12
2200 Other payables	60,824	7	61,113	7	56,924	7
2250 Current provisions (note 6(i))	2,110	-	4,108	1	4,259	1
2300 Other current liabilities	2,539	-	4,169	1	3,377	-
	<u>314,980</u>	<u>34</u>	<u>224,370</u>	<u>28</u>	<u>233,978</u>	<u>30</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>315,925</u>	<u>34</u>	<u>225,315</u>	<u>28</u>	<u>234,923</u>	<u>30</u>
Equity attributable to owners of parent: (notes 6(r) and (q))						
3110 Common stock	528,048	57	528,048	67	531,626	67
3200 Capital surplus	27,163	3	26,107	3	25,662	3
Retained earnings:						
3310 Legal reserve	51,494	5	51,494	7	51,494	7
3320 Special reserve	45,440	5	45,440	6	45,440	6
3350 Unappropriated retained earnings (accumulated deficits) (note 6(c))	25,706	3	(20,266)	(3)	(27,755)	(4)
	<u>122,640</u>	<u>13</u>	<u>76,668</u>	<u>10</u>	<u>69,179</u>	<u>9</u>
3400 Other equity interest (note 6(c))	(62,683)	(7)	(64,146)	(8)	(71,283)	(9)
Total equity	<u>615,168</u>	<u>66</u>	<u>566,677</u>	<u>72</u>	<u>555,184</u>	<u>70</u>
Total liabilities and equity	<u>\$ 931,093</u>	<u>100</u>	<u>791,992</u>	<u>100</u>	<u>790,107</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 six months ended June 30, 2018 and 2017

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

	For the three months ended June 30				For the six months ended June 30				
	2018		2017		2018		2017		
	Amount	%	Amount	%	Amount	%	Amount	%	
Operating revenues, net (note 6(s)):									
4110	Sales revenue	\$ 187,136	105	188,949	103	377,334	104	354,102	102
4190	Less: sales returns and allowances	9,858	6	6,232	4	17,708	5	11,477	3
4310	Rental income (note 6(m))	1,011	1	1,011	1	2,022	1	1,961	1
		178,289	100	183,728	100	361,648	100	344,586	100
5000	Cost of sales (notes 6(f) and (m))	124,298	70	133,148	73	249,850	69	246,213	72
5950	Gross profit	53,991	30	50,580	27	111,798	31	98,373	28
Operating expenses (note 12):									
6100	Selling expenses	34,103	19	33,155	18	68,476	19	64,699	19
6200	Administrative expenses	15,353	8	14,715	8	30,525	9	28,899	8
6300	Research and development expenses	3,572	2	2,011	1	7,425	2	4,134	1
		53,028	29	49,881	27	106,426	30	97,732	28
6900	Net operating income (loss)	963	1	699	-	5,372	1	641	-
Non-operating income and expenses:									
7100	Interest income	54	-	30	-	79	-	43	-
7190	Other income	283	-	27	-	357	-	3,670	1
7230	Foreign exchange gains(losses), net	(2,516)	(1)	2,987	1	(2,835)	(1)	965	-
7235	Gains(loss) on financial assets at fair value through profit or loss	3,724	2	(2,460)	(1)	3,609	1	(2,479)	(1)
7510	Interest expense	(490)	-	(402)	-	(875)	-	(764)	-
7770	Share of loss of associates and joint ventures accounted for using equity method (note 6(g))	(1,336)	(1)	-	-	(1,336)	-	-	-
		(281)	-	182	-	(1,001)	-	1,435	-
7900	Profit before tax	682	1	881	-	4,371	1	2,076	-
7950	Less: Income tax expense (note 6(o))	931	1	648	-	1,849	-	971	-
	Profit (loss)	(249)	-	233	-	2,522	1	1,105	-
8300	Other comprehensive income (loss):								
8310	Items that may not be reclassified subsequently to profit or loss:								
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	2,450	1	-	-	2,450	-	-	-
		2,450	1	-	-	2,450	-	-	-
8360	Items that may be reclassified subsequently to profit or loss:								
8361	Exchange differences on translation of foreign financial statements	(1,655)	(1)	11,840	7	(339)	-	2,351	1
8300	Other comprehensive income (loss), net	795	-	11,840	7	2,111	-	2,351	1
8500	Comprehensive income (loss)	\$ 546	-	12,073	7	4,633	1	3,456	1
Earnings per share (note 6(r))									
9750	Basic earnings per share	\$ -	-	-	-	0.05	-	0.02	-
9850	Diluted earnings per share	\$ -	-	-	-	0.05	-	0.02	-

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 six months ended June 30, 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	(Unappropriated retained earnings) 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	Total other equity interest
Balance at January 1, 2017	\$ 531,626	24,662	51,494	58,093	(41,515)	(69,624)	-	(3,048)	(72,672)	551,690
Appropriation and distribution of retained earnings:										
Reversal of special reserve	-	-	-	(12,655)	12,655	-	-	-	-	-
Profit for the six months ended June 30, 2017	-	-	-	-	1,105	-	-	-	-	1,105
Other comprehensive income for the six months ended June 30, 2017	-	-	-	-	-	2,351	-	-	-	2,351
Comprehensive income for the six months ended June 30, 2017	-	-	-	-	1,105	2,351	-	-	-	3,456
Share-based payments transactions	-	1,000	-	-	-	-	-	-	2,351	38
Balance at June 30, 2017	\$ 531,626	25,662	51,494	45,440	(27,755)	(67,273)	-	(4,010)	(71,283)	555,184
Balance at January 1, 2018	\$ 528,048	26,107	51,494	45,440	(20,266)	(63,309)	-	(837)	(64,146)	566,677
Effects of retrospective application	-	-	-	-	-	-	44,274	-	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)	(19,872)	610,951
Profit for the six months ended June 30, 2018	-	-	-	-	2,522	-	-	-	-	2,522
Other comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	-	(339)	2,450	-	2,111	2,111
Comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	2,522	(339)	2,450	-	2,111	4,633
Other changes in capital surplus:										
Share-based payments transactions	-	376	-	-	-	-	-	(1,472)	(1,472)	(1,096)
Donation from shareholders	-	680	-	-	-	-	-	-	-	680
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	43,450	-	(43,450)	-	(43,450)	-
Balance at June 30, 2018	\$ 528,048	27,163	51,494	45,440	25,706	(63,648)	3,274	(2,309)	(62,683)	615,168

See accompanying notes to consolidated financial statements.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	\$ 4,371	2,076
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	1,820	2,098
Amortization expense	739	4,678
Expected credit loss/ Provision (reversal of provision) for bad debt expense	(14)	(311)
Interest expense	875	764
Interest income	(79)	(43)
Share-based payment transactions	(1,096)	38
Share of loss of associates and joint ventures accounted for using equity method	1,336	-
Total adjustments to reconcile profit (loss)	<u>3,581</u>	<u>7,224</u>
Changes in operating assets and liabilities:		
Increase in financial assets at fair value through profit or loss	(178)	-
Decrease (increase) in notes and accounts receivable	7,254	(6,574)
Increase in other receivables	(45)	(271)
Increase in inventories	(84,790)	(51,673)
Increase in prepayments	(3,320)	(2,794)
Increase in other current assets	(20)	(1,629)
Increase in financial liabilities at fair value through profit or loss	-	993
Increase in notes and accounts payable	36,912	25,691
Increase (decrease) in other payables	(2,123)	10,249
Decrease in provisions	(2,011)	(733)
Decrease in other operating liabilities	(1,630)	(95)
Total adjustments	<u>(46,370)</u>	<u>(19,612)</u>
Cash flows from (used in) generated from operations	(41,999)	(17,536)
Interest received	78	43
Interest paid	(814)	(766)
Income taxes paid	(470)	(700)
Net cash flows from (used in) operating activities	<u>(43,205)</u>	<u>(18,959)</u>
Cash flows from (used in) investing activities:		
Acquisition of investments accounted for using equity method	(31,527)	-
Acquisition of property, plant and equipment	(543)	(155)
Decrease in refundable deposits	1,685	589
Acquisition of intangible assets	(2,161)	(513)
Net cash flows from (used in) investing activities	<u>(32,546)</u>	<u>(79)</u>
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term loans	57,615	(10,757)
Other financing activities	680	-
Net cash flows from (used in) financing activities	<u>58,295</u>	<u>(10,757)</u>
Effect of exchange rate changes on cash and cash equivalents	(325)	2,344
Net decrease in cash and cash equivalents	(17,781)	(27,451)
Cash and cash equivalents at beginning of period	108,369	94,787
Cash and cash equivalents at end of period	<u>\$ 90,588</u>	<u>67,336</u>

See accompanying notes to consolidated financial statements.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 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 August 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.

Financial Assets	IAS39		IFRS9	
	Measurement categories	Carrying amount	Measurement categories	Carrying amount
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: 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

(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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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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 endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
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 19 “Plan Amendment, Curtailment or Settlement”	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

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 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on its financial statements in the period of initial application will depend on future economic conditions, including the Group’s discounting rate, the composition of the Group’s lease portfolio at that date, the Group’s latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

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

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases on offices and cars.

1) Determining whether an arrangement contains a lease

The Group has an arrangement that was not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

(c) 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 have yet to be 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 17 “Insurance Contracts”	January 1, 2021

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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The Group assessed that the above IFRSs may not be relevant to the Group.

(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.

(b) Basis of consolidation

List of subsidiaries in the consolidated financial statements:

Name of investor	Name of subsidiary	Principal activity	Shareholding			Note
			June 30, 2018	December 31, 2017	June 30, 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(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.

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

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

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.

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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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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:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances 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.

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 30 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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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.

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) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition, less, any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of associates, after adjustments to align their accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. The Group recognizes any changes, proportionately with the shareholding ratio under capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual controlling power.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interests in an associate, the carrying amount of the investment, including any long term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the associate.

(e) 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.

(f) 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.

For a change in tax rate that is substantively enacted in an interim period, the effect of the change immediately should be recognized in the interim period in which the change occurs.

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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

	June 30, 2018	December 31, 2017	June 30, 2017
Petty cash, checking accounts and demand deposits	\$ 87,197	104,987	63,965
Time deposits	3,391	3,382	3,371
	<u>\$ 90,588</u>	<u>108,369</u>	<u>67,336</u>

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

	June 30, 2018	December 31, 2017	June 30, 2017
Mandatorily measured at fair value through profit or loss			
Derivative instruments not used for hedging:			
Forward exchange contracts	\$ 178	-	-
Financial liabilities designated as at fair value through profit or loss			
Held-for-trading financial liabilities:			
Derivative instruments not used for hedging	\$ -	-	993

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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 June 30, 2018 and held-for-trading financial instruments on June 30, 2017:

	<u>June 30, 2018</u>		
	<u>Contract amount (in thousands)</u>	<u>Currency</u>	<u>Maturity date</u>
Financial assets:			
Forward exchange sold	EUR <u>264</u>	EUR to USD	2018.08.13
	<u>June 30, 2017</u>		
	<u>Contract amount (in thousands)</u>	<u>Currency</u>	<u>Maturity date</u>
Financial liabilities:			
Forward exchange sold	EUR <u>1,146</u>	EUR to USD	2017.07.05~2017.08.25

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

	<u>June 30, 2018</u>
Equity investments at fair value through other comprehensive income:	
Unlisted common shares	
Foreign Company-IRONYUN	\$ <u>33,974</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 at fair value through other comprehensive income. These investments were classified as financial assets carried at cost-non-current on December 31 and June 30, 2017.

(ii) The Group purchased newly issued shares of IRONYUN INCORPORATED (IRONYUN) amounting to \$3,010 in November 2017. The investments were accounted for as non-current prepayments for investments since the Group has yet to acquire the shares.

(iii) Taiwan Biophotonic Corporation (TBPC) increased its capital through cash injection, wherein the Group participated and increased its investment amounting to \$31,527 in 2018. The percentage of equity ownership on the investment of the Group had increased to 26.3%; therefore, the Group had significant influence over it. The Group remeasured the fair value of its investment amounting to \$93,450 and accounted it for using the equity method. The Group reclassified the amount of \$43,450, which was recognized in other comprehensive income to retained earnings. Please refer to Note 6(g) for other related information.

(iv) As of June 30, 2018, the Group did not provide any of the aforementioned financial assets as collaterals for its loans.

(v) For credit risk and market risk; please refer to note 6 (u).

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

	<u>December 31, 2017</u>	<u>June 30, 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 June 30, 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 June 30, 2018.

(ii) As of December 31 and June 30, 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>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Note receivables from operating activities	\$ 3,386	189	92
Notes receivables-measured as amortized cost	<u>75,680</u>	<u>86,146</u>	<u>96,295</u>
	79,066	86,335	96,387
Less: Loss allowance	(37)	(51)	(108)
Allowance for sales discounts	<u>-</u>	<u>(15)</u>	<u>(16)</u>
	<u>\$ 79,029</u>	<u>86,269</u>	<u>96,263</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 June 30, 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 June 30, 2018 was determined as follows:

	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 76,704	0.04%	30
1 to 30 days past due	2,322	0.22%	5
31 to 90 days past due	<u>40</u>	5%	<u>2</u>
	<u>\$ 79,066</u>		<u>37</u>

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As of December 31 and June 30, 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	June 30, 2017
Current	\$ 75,071	82,091
Past due 1 to 30 days	11,007	14,128
Past due 30 to 90 days	257	151
Past due 91 to 180 days	-	17
	<u>\$ 86,335</u>	<u>96,387</u>

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

	For the six months ended June 30, 2018	For the six months ended June 30, 2017 Collectively assessed impairment
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 reversed	(14)	(311)
Balance on June 30, 2018 and 2017	<u>\$ 37</u>	<u>108</u>

As of June 30, 2018, December 31 and June 30, 2017, the Group did not provide any of the aforementioned notes and accounts receivable as collaterals for its loans.

(f) Inventories

	June 30, 2018	December 31, 2017	June 30, 2017
Merchandise inventories	<u>\$ 295,705</u>	<u>210,915</u>	<u>235,737</u>

The details of cost of sales for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Cost of goods sold and expenses	\$ 123,377	133,691	249,370	248,856
Inventory valuation loss and obsolescence (reversed)	523	(942)	(319)	(3,444)
	<u>\$ 123,900</u>	<u>132,749</u>	<u>249,051</u>	<u>245,412</u>

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During the three months ended June 30, 2018, the write-down of inventories amounted to \$523.

For the three months and the six months ended June 30, 2018 and 2017, the Group reversed its allowance for inventory valuation loss and obsolescence amounting to \$942, \$319 and \$3,444, respectively.

As of June 30, 2018, December 31 and June 30, 2017, the Group did not provide any inventories as collaterals for its loans.

(g) Investments accounted for using equity method

(i) Associate

Taiwan Biophotonic Corporation increased its capital through cash injection, wherein the Group participated and increased its investment amounting to \$31,527 in 2018. The percentage of equity ownership on the investment of the Group had increased to 26.3%; therefore, the Group had significant influence over it.

(ii) Details of the material associate is as follows:

Name of Associate	Nature of the relationship with the Group	Main operating location/ Registered Country of the Company	Proportion of shareholding and voting rights June 30, 2018
Taiwan Biophotonic Corporation (tBPC)	Manufacturing and sale of medical equipment	Taiwan	26.30 %

The following financial information on the significant associate has been adjusted according to IFRS.

1) Summarized financial information of tBPC

	In June 2018
Current assets	\$ 72,244
Non-current assets	67,352
Current liabilities	(8,451)
Net assets	<u>\$ 131,145</u>
Notes assets attributable to non-controlling interests	<u>\$ 131,145</u>

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	June 30, 2018
Operating revenue	\$ <u>11</u>
Loss from continuing operations (equal to comprehensive loss)	\$ <u>(4,482)</u>
Total comprehensive loss attributable to owners of the associate	\$ <u>(4,482)</u>
	June 30, 2018
Share of net assets of the associate to the Group at the acquisition date	\$ 35,670
Comprehensive loss attributable to the Group	<u>(1,179)</u>
Share of net assets of the associate as of June 30, 2018	34,491
Additional fair value adjustments of identifiable assets and goodwill	<u>89,150</u>
Carrying amounts of the investment	\$ <u><u>123,641</u></u>

The above fair values of intangible assets have been determined on a provisional basis, and an independent valuation has yet to be completed.

(iii) The unreviewed financial statements of investments were accounted for using the equity method, and the share of profit or loss and other comprehensive income of the investment were calculated based on the financial statements that have not been reviewed.

(iv) Pledges

As of June 30, 2018, the Group did not provide any investment accounted for using equity method as collateral for its loans.

(h) 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	\$ <u>95,104</u>	<u>24,745</u>	<u>1,452</u>	<u>2,599</u>	<u>123,900</u>
Balance on June 30, 2018	\$ <u>95,104</u>	<u>24,742</u>	<u>1,213</u>	<u>2,155</u>	<u>123,214</u>
Balance on January 1, 2017	\$ <u>95,104</u>	<u>25,096</u>	<u>2,451</u>	<u>3,004</u>	<u>125,655</u>
Balance on June 30, 2017	\$ <u>95,104</u>	<u>24,642</u>	<u>1,837</u>	<u>2,696</u>	<u>124,279</u>

There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the six months ended June 30, 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 June 30, 2018, December 31 and June 30, 2017, the property, plant and equipment has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

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

(i) Investments property

	<u>Land</u>	<u>Buildings and construction</u>	<u>Total</u>
Book Value:			
Balance on January 1, 2018	\$ <u>111,400</u>	<u>54,616</u>	<u>166,016</u>
Balance on June 30, 2018	\$ <u>111,400</u>	<u>54,024</u>	<u>165,424</u>
Balance on January 1, 2017	\$ <u>111,400</u>	<u>55,799</u>	<u>167,199</u>
Balance on June 30, 2017	\$ <u>111,400</u>	<u>55,207</u>	<u>166,607</u>

There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the six months ended June 30, 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.

The fair value of the investment property was not significantly different from those disclosed in Note 12(f) of the consolidated financial statements for the year ended December 31, 2017.

As of June 30, 2018, December 31 and June 30, 2017, the investment property has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

(j) Intangible Assets

	<u>Product Development expense</u>	<u>Computer software and others</u>	<u>Total</u>
Carrying amounts:			
Balance on January 1, 2018	\$ <u>-</u>	<u>2,274</u>	<u>2,274</u>
Balance on June 30, 2018	\$ <u>-</u>	<u>3,696</u>	<u>3,696</u>
Balance on January 1, 2017	\$ <u>6,554</u>	<u>1,347</u>	<u>7,901</u>
Balance on June 30, 2017	\$ <u>2,078</u>	<u>1,658</u>	<u>3,736</u>

There were no significant additions, disposal, or recognition and reversal of impairment losses of intangible assets for the six months ended June 30, 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 June 30, 2018, December 31 and June 30, 2017, the Group did not provide any intangible assets as collaterals for its loans.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(k) Short-term borrowings

	June 30, 2018	December 31, 2017	June 30, 2017
Unsecured bank loans	\$ 66,914	59,299	13,972
Secured bank loans	79,000	29,000	65,000
Total	<u>\$ 145,914</u>	<u>88,299</u>	<u>78,972</u>
Unused credit lines for short-term borrowings	<u>\$ 288,990</u>	<u>347,701</u>	<u>357,028</u>
Annual interest rates	<u>1.10%~3.34%</u>	<u>1.10%~2.57%</u>	<u>1.10%~2.57%</u>

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

(l) Provisions

There were no significant changes in provisions for the six months ended June 30, 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.

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

(m) Operating lease

There were no significant changes in operating lease for the six months ended June 30, 2018 and 2017. Please refer to Note 6(j) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

(n) 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 June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Selling expenses	\$ 244	170	488	306
Administrative expenses	311	442	635	823
Research and development expenses	143	67	281	137
	<u>\$ 698</u>	<u>679</u>	<u>1,404</u>	<u>1,266</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(o) 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 and the six months ended June 30, 2018 and 2017 was as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Tax expenses	\$ 931	648	\$ 1,849	971

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

(p) 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 June 30, 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.

(i) Capital surplus

The balances of capital surplus were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Additional paid-in capital	\$ 20,986	20,986	20,986
Restricted employee shares	530	530	1,086
Employee stock options	4,967	4,591	3,590
Donation from shareholders	680	-	-
	\$ 27,163	26,107	25,662

(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.

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

Based on the resolutions approved during the annual stockholders' meetings held on June 13, 2018 and June 14, 2017, the loss on the appropriation of dividends in 2017 and 2016, respectively, need not be allocated.

(q) Share-based payment

There were no significant changes for share-based payment during the periods from January 1 to June 30, 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.

(r) Earnings (loss) per share

For the three months and the six months ended June 30, 2018 and 2017, the Group's earnings per share were calculated as follows:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Basic earnings per share:				
Net income (loss)	\$ <u>(249)</u>	<u>233</u>	<u>2,522</u>	<u>1,105</u>
Weighted-average number of shares outstanding (thousands)	<u>52,471</u>	<u>52,471</u>	<u>52,471</u>	<u>52,471</u>
Basic earnings per share (dollars)	\$ <u>-</u>	<u>-</u>	<u>0.05</u>	<u>0.02</u>
Diluted earnings per share:				
Weighter-average number of shares outstanding (thousands)	52,471	52,471	52,471	52,471
Effect of restricted employee shares unvested	<u>296</u>	<u>419</u>	<u>296</u>	<u>419</u>
Weighted-average number of shares outstanding (thousand)	<u>52,767</u>	<u>52,890</u>	<u>52,767</u>	<u>52,890</u>
Diluted earnings per share (dollars)	\$ <u>-</u>	<u>-</u>	<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).

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(s) Revenue

(i) Disaggregation of revenue

	For the three months ended June 30, 2018	For the six months ended June 30, 2018
Primary geographical markets		
Netherland	\$ 32,438	87,127
Germany	52,566	87,435
United States	6,832	15,719
Others	<u>86,453</u>	<u>171,367</u>
	<u>\$ 178,289</u>	<u>361,648</u>
Major products		
LCD monitors	\$ 173,805	351,863
Medical equipment	1,501	3,549
Others accessories	1,972	4,214
Rental revenue	<u>1,011</u>	<u>2,022</u>
	<u>\$ 178,289</u>	<u>361,648</u>

(ii) Contract balances

	June 30, 2018	January 1, 2018
Notes and accounts receivable	\$ 79,066	86,335
Less: allowance for impairment	<u>(37)</u>	<u>(51)</u>
	<u>\$ 79,029</u>	<u>86,284</u>

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

(t) 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.

The remunerations to employees and directors both amounted to \$280 for the three-months period and the six month period ended June 30, 2018. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholder' meeting, the adjustment will be accounted for as changes in accounting estimates and

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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will be reflected in profit or loss in the following year. Shares distributed as employees remuneration are calculated based on the closing price of the Company's shares on the day before the approval by the Board of Directors.

For the year ended December 31, 2017, the Group incurred net income before tax. However, due to its accumulated deficits, no remuneration to employees and directors were recognized. The information is available at the Market Observation Post System Website.

(u) 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>
June 30, 2018				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 145,914	(145,914)	(145,914)	-
Notes and accounts payable	103,593	(103,593)	(103,593)	-
Other payables	58,020	(58,020)	(58,020)	-
Guarantee deposits	<u>945</u>	<u>(945)</u>	<u>-</u>	<u>(945)</u>
	<u>\$ 308,472</u>	<u>(308,472)</u>	<u>(307,527)</u>	<u>(945)</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>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
June 30, 2017				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 78,972	(78,972)	(78,972)	-
Notes and accounts payable	89,453	(89,453)	(89,453)	-
Other payables	41,090	(41,090)	(41,090)	-
Guarantee deposits	945	(945)	-	(945)
Derivative financial liabilities:				
Forward exchange contracts	993			
Outflow	-	(39,789)	(39,789)	-
Inflow	-	38,949	38,949	-
	<u>\$ 211,453</u>	<u>(211,300)</u>	<u>(210,355)</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 was as follows:

	<u>June 30, 2018</u>			<u>December 31, 2017</u>			<u>June 30, 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	\$ 1,161	USD/TWD =30.46	35,357	1,238	USD/TWD =29.760	36,855	362	USD/TWD =30.42	11,016
USD	137	USD/EUR =1.1622	4,177	173	USD/EUR =1.1952	5,152	44	USD/EUR =1.1414	1,346
Financial liabilities									
Monetary items									
USD	2,147	USD/TWD =30.46	65,404	1,208	USD/TWD =29.760	35,964	1,613	USD/TWD =30.42	49,079

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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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A weakening (strengthening) 5% of each foreign currency against the functional currency on June 30, 2018 and 2017 would have affected the net profit before tax as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
USD (against the TWD)		
Appreciate 5%	\$ (1,502)	(1,903)
Depreciate 5%	1,502	1,903
USD (against the EUR)		
Appreciate 5%	209	67
Depreciate 5%	(209)	(67)

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 and the six months ended June 30, 2018 and 2017, the foreign exchange gains (losses), including realized and unrealized, amounted to \$(2,516), \$2,987, \$(2,835) and \$965, respectively.

(iv) Interest rate analysis

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

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

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by \$100 and \$34 for the six months ended June 30, 2018 and 2017, respectively, which would mainly result from the bank savings and short-term borrowings with variable interest rates at the reporting date.

(v) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss and of financial assets at fair value through other comprehensive income are measured on a recurring basis.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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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 :

	June 30, 2018				
	Book value	Fair Value			Total
	Level 1	Level 2	Level 3		
Financial assets at fair value through profit or loss					
Derivative financial assets	\$ 178	-	178	-	178
Financial assets at fair value through other comprehensive income					
Unquoted equity instruments at fair value	33,974	-	-	33,974	33,974
Financial assets measured at amortized cost					
Cash and cash equivalents	90,588	-	-	-	-
Notes and accounts receivable	79,029	-	-	-	-
Other receivables	452	-	-	-	-
Restricted bank deposits (recognized as other current assets)	151	-	-	-	-
Subtotal	170,220				
Total	<u>\$ 204,372</u>				
Financial liabilities measured at amortized cost					
Short-term borrowing	145,914	-	-	-	-
Notes and accounts payable	103,593	-	-	-	-
Other payables	58,020	-	-	-	-
Guaranteed deposits	945	-	-	-	-
Total	<u>\$ 308,472</u>				

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

		December 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	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>					
Total	\$ <u>275,895</u>					
Financial liabilities at amortized cost through profit or loss						
Short-term borrowing	\$ 88,299	-	-	-	-	
Notes and accounts payable	66,681	-	-	-	-	
Other payables	53,883	-	-	-	-	
Guaranteed deposits	945	-	-	-	-	
Total	\$ <u>209,808</u>					
		June 30, 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	67,336	-	-	-	-	
Notes and accounts receivable	96,263	-	-	-	-	
Other receivables	447	-	-	-	-	
Restricted bank deposits (recognized as other current assets)	151	-	-	-	-	
Subtotal	<u>164,197</u>					
Total	\$ <u>244,897</u>					

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

	June 30, 2017				Total
	Book value	Fair Value			
	Level 1	Level 2	Level 3		
Financial liabilities at fair value through profit or loss					
Derivative financial liabilities	\$ 993	-	993	-	993
Financial liabilities at amortized cost through profit or loss					
Short-term borrowing	78,972	-	-	-	-
Notes and accounts payable	89,453	-	-	-	-
Other payables	41,090	-	-	-	-
Guaranteed deposits	945	-	-	-	-
Subtotal	<u>210,460</u>				
Total	<u>\$ 211,453</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 will use the public quoted price of the active market as the fair value if it has the public quoted price of the 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.
- 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 six months ended June 30, 2018 and 2017.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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5) Reconciliation of level 3 fair values

	For the six months ended June 30, 2018
Balance on January 1, 2018	\$ 124,974
Total profit or loss	
Recognized under other comprehensive income	2,450
Change to equity method	(93,450)
Balance on June 30, 2018	\$ 33,974

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:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through other comprehensive income-equity instruments without an active market (Preferred stock)	Income Approach-perpetual annuity	<ul style="list-style-type: none"> • Weighted Average Cost of Capital (WACC) as of June 30, 2018 was 4.21% • Expected rate on return for preferred stock as of June 30, 2018 was 3% 	The higher the WACC and the Expected rate on return are, the lower the fair value will be.

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

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

For classifying financial instrument is Level 3, if change one or more of the evaluation parameters, the other comprehensive income would have the following effects:

June 30, 2018	Input	Change	Other comprehensive income	
			Favourable	Unfavourable
Financial assets at fair value through other comprehensive income				
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 favourable 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.

- (v) 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.

- (w) 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.

- (x) 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 six months ended June 30, 2018 and 2017: None

- (ii) Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2018	Cash flows	June 30, 2018
Short-term borrowings	\$ <u>88,299</u>	<u>57,615</u>	<u>145,914</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(7) Related-party transactions:

Key management personnel compensation

Key management personnel compensation comprised:

	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 2,819	2,166	5,509	5,155
Post-employment benefits	54	72	108	108
	<u>\$ 2,873</u>	<u>2,238</u>	<u>5,617</u>	<u>5,263</u>

(8) Pledged assets:

The carrying amounts of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Land and buildings	Guarantee for short-term loans and the credit line	\$ 116,660	116,902	117,143
Investment property	Guarantee for short-term loans and the credit line	165,424	166,016	166,607
Restricted bank deposits	Warranty guarantee	151	151	151
		<u>\$ 282,235</u>	<u>283,069</u>	<u>283,901</u>

(9) Commitments and contingencies:

On June 30, 2018 and December 31, 2017, the unused balance of the Group's letters of credit amounted to \$1,096 and \$1,707, respectively.

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

(Continued)

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(12) Other:

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

By function	For the three months ended June 30,					
	2018			2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	-	24,095	24,095	-	21,846	21,846
Labor and health insurance	-	3,415	3,415	-	3,009	3,009
Pension	-	698	698	-	679	679
Others	-	1,063	1,063	-	695	695
Depreciation	296	618	914	296	730	1,026
Amortization	257	190	447	2,238	80	2,318

By function	For the six months ended June 30,					
	2018			2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	-	48,982	48,982	-	44,633	44,633
Labor and health insurance	-	6,543	6,543	-	6,088	6,088
Pension	-	1,404	1,404	-	1,266	1,266
Others	-	1,977	1,977	-	1,371	1,371
Depreciation	592	1,228	1,820	592	1,506	2,098
Amortization	435	304	739	4,537	141	4,678

Note: The depreciation for the three month and six months ended June 30, 2018 and 2017 included the depreciation of investment property amounted to \$296, \$296, \$592 \$592, respectively.

- (b) Seasonality of operations

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

(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 six month ended June 30, 2018:

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(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	6,092 (US\$200)	6,092 (US\$200)	-	2%	Short-term financing	-	Operating turnover	-	-	-	123,034	246,067

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 USD30.46 on June 30, 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	615,168	150,000	150,000	42,472	-	24.38 %	615,168	Yes	No	No
0	"	AG Neovo USA	"	615,168	30,000	30,000	-	-	4.88 %	615,168	Yes	No	No

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

(iii) Securities held as of June 30, 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	IRONYUN INCORPORATED	-	Financial assets measured at fair value through other comprehensive income	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.

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

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase /Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	AG Neovo B.V	100% owned subsidiary	(Sale)	(190,494)	(92) %	Depending on the demand for funding	Not applicable	General transactions for 30 to 150 days collection	Note 1	-%	Note 2

Note 1 : As of June 30, 2018, the amount of unearned sales revenue was NT\$155,807 thousands..

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

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:None.
- (ix) Trading in derivative instruments: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	190,494	The price is marked up based on the operating cost, and the receivables depend on the funding demand with in the credit period.	52.67 %
0	"	"	1	Unearned sales revenue	155,807	"	16.73 %
0	"	AG Neovo USA	1	Operating revenue	4,521	"	1.25 %
0	"	"	1	Unearned sales revenue	5,993	"	0.64 %

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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Notes to the Consolidated Financial Statements

(b) Information on investees:

The following is the information on investees for the six months ended June 30, 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 June 30, 2018			Net Income (losses) of Investee (Note2)	Investment Income(losses) (Note2)	Note
				June 30, 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 %	22,517	(2,359)	(2,359)	Note 3
"	AG Neovo B.V	Netherlands	Sales LCD monitors	187,013	187,013	4.8	100 %	189,787	3,177	3,177	"
"	AG Neovo Investment	British Virgin Islands	Investment	14,796	14,796	0.5	100 %	15,005	(747)	(747)	"
	Taiwan Biophotonic Corporation	Taiwan	Manufacturing and sale of medical equipment	81,527	50,000	8,153	26 %	123,641	(25,779)	(1,336)	
GMF	AG Neovo International	British Virgin Islands	Investment	14,621 (US\$ 480)	14,621 (US\$ 480)	0.01	100 %	7 (US\$ -)	- (US\$ -)	Recognized by shareholding percentage by GMF	Note 3
"	AG Neovo USA	U.S.A.	Sales LCD monitors and medical equipment	60,920 (US\$ 2,000)	60,920 (US\$ 2,000)	701	100 %	21,048 (US\$ 691)	(2,718) (US\$ (92))		"

Note1: The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.46 on June 30, 2018.

Note2: The amounts in New Taiwan Dollars were translated at the exchange rates of USD29.5448 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 June 30, 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	15,230 (US\$500)	Note 1	15,230 (US\$500)	-	-	15,230 (US\$500)	(1,005) (US\$(34))	100%	(1,005) (US\$(34))	15,139 (US\$497)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of June 30, 2018 (Notes 2 and 4)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 2 and 4)	Upper Limit on Investment
122,937 (US\$4,036)	122,937 (US\$4,036)	369,101

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 USD30.46 on June 30, 2018.

Note 3 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD29.5448 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)

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(14) Segment information:

For the three months ended June 30, 2018						
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	\$ 161,994	7,699	6,134	2,462	-	178,289
Revenue from segments	<u>2,762</u>	<u>5</u>	<u>95,157</u>	<u>2</u>	<u>(97,926)</u>	<u>-</u>
	<u>\$ 164,756</u>	<u>7,704</u>	<u>101,291</u>	<u>2,464</u>	<u>(97,926)</u>	<u>178,289</u>
Reportable segment profit (loss)	<u>\$ 1,497</u>	<u>(1,338)</u>	<u>(249)</u>	<u>(776)</u>	<u>1,548</u>	<u>682</u>
For the three months ended June 30, 2017						
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	\$ 155,142	14,969	7,595	6,022	-	183,728
Revenue from segments	<u>1,047</u>	<u>166</u>	<u>65,495</u>	<u>(3)</u>	<u>(66,705)</u>	<u>-</u>
	<u>\$ 156,189</u>	<u>15,135</u>	<u>73,090</u>	<u>6,019</u>	<u>(66,705)</u>	<u>183,728</u>
Reportable segment profit (loss)	<u>\$ 2,480</u>	<u>(1,173)</u>	<u>233</u>	<u>548</u>	<u>(1,207)</u>	<u>881</u>
For the six months ended June 30, 2018						
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	\$ 324,354	17,418	11,364	8,512	-	361,648
Revenue from segments	<u>3,541</u>	<u>598</u>	<u>195,015</u>	<u>204</u>	<u>(199,358)</u>	<u>-</u>
	<u>\$ 327,895</u>	<u>18,016</u>	<u>206,379</u>	<u>8,716</u>	<u>(199,358)</u>	<u>361,648</u>
Reportable segment profit (loss)	<u>\$ 5,000</u>	<u>(2,335)</u>	<u>2,522</u>	<u>(745)</u>	<u>(71)</u>	<u>4,371</u>
For the six months ended June 30, 2017						
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	\$ 291,313	29,411	15,439	8,423	-	344,586
Revenue from segments	<u>1,912</u>	<u>262</u>	<u>125,095</u>	<u>220</u>	<u>(127,489)</u>	<u>-</u>
	<u>\$ 293,225</u>	<u>29,673</u>	<u>140,534</u>	<u>8,643</u>	<u>(127,489)</u>	<u>344,586</u>
Reportable segment profit (loss)	<u>\$ 8,060</u>	<u>(3,053)</u>	<u>1,105</u>	<u>141</u>	<u>(4,177)</u>	<u>2,076</u>

