

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**With Independent Auditors' Report  
for the Years Ended December 31, 2018 and 2017**

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

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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## **Representation Letter**

The entities that are required to be included in the combined financial statements of ASSOCIATED INDUSTRIES CHINA, INC. as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, ASSOCIATED INDUSTRIES CHINA, INC. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: ASSOCIATED INDUSTRIES CHINA, INC.  
Chairman: Jackson Y. Yu  
Date: March 20, 2019



安侯建業聯合會計師事務所

KPMG

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

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

## Independent Auditors' Report

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

### Opinion

We have audited the consolidated financial statements of Associated Industries China, Inc. and its subsidiaries (“the Group”), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the years then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

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

### Key Audit Matters

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

## 1. Inventory valuation

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

### Description of key audit matters:

As inventories are stated at the lower of cost or net realizable value. The major business activities of the Group are the research, development and sale of LCD monitors, medical equipment and related components. The Group has entered into the business selling professional dental equipment in recent years, with having limited sales historical records available for inventory valuation. Therefore, the test of inventory valuation is an important assessment items for us to perform audit.

### Audit Procedures:

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

## 2. Investment in associates accounted for using equity method

Please refer to Note 4(i) Investment in associates. Information regarding the investment in associates is shown in Note 6(b) and 6(f) of the consolidated financial statements.

### Description of key audit matters:

The Group increased its investment in Taiwan Biophotonic Corporation (tBPC) in 2018 and had significant influence over it. When the Group had significant influence over it, the Group revalued the previously held interest of tBPC with fair value, and accounted for using the equity method. The Group assigned an external expert to assess the fair value of the identifiable asset and the goodwill. As the decision on the fair value of the identifiable asset and the assessment of the goodwill involve a high degree of uncertainty in the accounting estimates. Therefore, this is one of the important assessment items for us to perform audit.

### Audit Procedures:

Our audit procedures included: evaluate the appropriateness of accounting for using the equity method; assess the qualifications, professional competence and independence of external experts, and understand the assumptions and methods of the identifiable asset and the goodwill.

**Other Matter**

Associated Industries China, Inc. has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

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

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

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

Those charged with governance (including the Audit Committee) are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)

March 20, 2019

#### Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current assets:</b>				
1100 Cash and cash equivalents (note 6(a))	\$ 100,314	12	108,369	14
1170 Notes and accounts receivable, net (note 6(d))	98,560	12	86,269	11
1200 Other receivables	419	-	406	-
1300 Inventories, net (note 6(e))	205,082	25	210,915	27
1410 Prepayments	5,431	1	6,045	1
1470 Other current assets (note 8)	1,173	-	1,705	-
	<u>410,979</u>	<u>50</u>	<u>413,709</u>	<u>53</u>
<b>Non-current assets:</b>				
1543 Non-current financial assets carried at cost (note 6(c))	-	-	80,700	10
1550 Investments accounted for using equity method (note 6(f))	115,099	14	-	-
1600 Property, plant and equipment (notes 6(g.) and 8)	122,845	15	123,900	16
1760 Investment property, net (notes 6(h) and 8)	164,833	20	166,016	21
1780 Intangible assets, net (note 6(f))	3,470	1	2,274	-
1900 Other non-current assets	682	-	2,383	-
1960 Non-current prepayments for investments (note 6(c))	-	-	3,010	-
	<u>406,929</u>	<u>50</u>	<u>378,283</u>	<u>47</u>
<b>Total assets</b>	<u>\$ 817,908</u>	<u>100</u>	<u>791,992</u>	<u>100</u>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Short-term borrowings (note 6(j))	2100		2100	
Current contract liabilities (note 6(r))	2130		2130	
Notes and accounts payable	2170		2170	
Other payables	2200		2200	
Current provisions (note 6(k))	2250		2250	
Other current liabilities	2300		2300	
	<u>945</u>	<u>-</u>	<u>945</u>	<u>-</u>
<b>Non-current liabilities:</b>				
Other non-current liabilities	2600		2600	
	<u>945</u>	<u>-</u>	<u>945</u>	<u>-</u>
<b>Total liabilities</b>	<u>232,644</u>	<u>28</u>	<u>225,315</u>	<u>28</u>
<b>Equity attributable to owners of parent: (notes 6(o) and (p))</b>				
Common stock	3110		3110	
Capital surplus	3200		3200	
Retained earnings:				
Legal reserve	3310		3310	
Special reserve	3320		3320	
Unappropriated retained earnings (accumulated deficits) (note 6(c))	3350		3350	
Other equity interest	3400		3400	
<b>Total equity</b>	<u>524,790</u>	<u>64</u>	<u>528,048</u>	<u>67</u>
<b>Total liabilities and equity</b>	<u>27,000</u>	<u>4</u>	<u>26,107</u>	<u>3</u>
	<u>\$ 817,908</u>	<u>100</u>	<u>791,992</u>	<u>100</u>



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

**Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2018 and 2017**

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

	2018		2017	
	Amount	%	Amount	%
4000 <b>Operating revenues, net (note 6(r)):</b>				
4110 Sales revenue	778,777	104	766,755	103
4190 Less: sales returns and allowances	36,212	4	26,467	4
4310 Rental income (note 6(l))	4,044	-	3,983	1
	<u>746,609</u>	<u>100</u>	<u>744,271</u>	<u>100</u>
5000 <b>Cost of sales (notes 6(e) and (l))</b>	<u>505,447</u>	<u>68</u>	<u>530,228</u>	<u>71</u>
5950 <b>Gross profit</b>	<u>241,162</u>	<u>32</u>	<u>214,043</u>	<u>29</u>
<b>Operating expenses (note 6(m), 6(s) and 12):</b>				
6100 Selling expenses	140,068	19	134,087	18
6200 Administrative expenses	62,282	8	57,700	8
6300 Research and development expenses	15,914	2	10,054	1
	<u>218,264</u>	<u>29</u>	<u>201,841</u>	<u>27</u>
<b>Net operating income</b>	<u>22,898</u>	<u>3</u>	<u>12,202</u>	<u>2</u>
<b>Non-operating income and expenses:</b>				
7100 Interest income	159	-	123	-
7190 Other income	4,231	-	5,495	-
7230 Foreign exchange gains(losses), net	(3,376)	-	2,372	-
7235 Gains(loss) on financial assets at fair value through profit or loss	4,990	-	(3,263)	-
7510 Interest expense	(1,930)	-	(2,412)	-
7770 Share of loss of associates and joint ventures accounted for using equity method (note 6(f))	(9,878)	(1)	-	-
	<u>(5,804)</u>	<u>(1)</u>	<u>2,315</u>	<u>-</u>
7900 <b>Profit before tax</b>	17,094	2	14,517	2
7950 <b>Less: Income tax expense (note 6(n))</b>	4,998	-	5,923	1
8200 <b>Profit (loss)</b>	<u>12,096</u>	<u>2</u>	<u>8,594</u>	<u>1</u>
8300 <b>Other comprehensive income (loss):</b>				
8310 <b>Items that may not be reclassified subsequently to profit or loss:</b>				
8316 Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income (note 6(b))	(34,534)	(5)	-	-
Total items that not reclassified to profit or loss	<u>(34,534)</u>	<u>(5)</u>	<u>-</u>	<u>-</u>
8360 <b>Items that may be reclassified subsequently to profit or loss:</b>				
8361 Exchange differences on translation of foreign financial statements	(1,707)	-	6,315	1
Subsequent total of item that may be reclassified to profit or loss	<u>(1,707)</u>	<u>-</u>	<u>6,315</u>	<u>1</u>
8300 <b>Other comprehensive income (loss), net</b>	<u>(36,241)</u>	<u>(5)</u>	<u>6,315</u>	<u>1</u>
8500 <b>Comprehensive income (loss)</b>	<u>(24,145)</u>	<u>(3)</u>	<u>14,909</u>	<u>2</u>
<b>Earnings per share (note 6(q))</b>				
9750 <b>Basic earnings per share (NT dollars)</b>		<u>0.23</u>		<u>0.16</u>
9850 <b>Diluted earnings per share (NT dollars)</b>		<u>0.23</u>		<u>0.16</u>

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2018 and 2017**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Retained earnings				Other equity interest			Total equity		
	Common stock	Capital surplus	Legal reserve	Special reserve	(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	58,095	(41,515)	(69,624)	-	(3,048)	(72,672)	551,690
Appropriation and distribution of retained earnings:	-	-	-	-	12,655	-	-	-	-	-
Reversal of special reserve	-	-	-	(12,655)	8,594	-	-	-	-	8,594
Profit for the year ended December 31, 2017	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	-	6,315	-	-	-	6,315
Comprehensive income for the year ended December 31, 2017	-	-	-	-	-	6,315	-	-	-	6,315
Share-based payments transactions	(3,578)	1,445	-	-	8,594	6,315	-	-	-	14,909
Balance at December 31, 2017	528,048	26,107	51,494	45,440	(20,266)	(63,309)	-	2,211	2,211	78
Effects of retrospective application	-	-	-	-	-	-	-	(837)	(837)	566,677
Balance at January 1, 2018 after adjustments	528,048	26,107	51,494	45,440	(20,266)	(63,309)	44,274	-	44,274	44,274
Profit for the year ended December 31, 2018	-	-	-	-	12,096	-	-	-	-	12,096
Other comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	(1,707)	(34,534)	-	(36,241)	(36,241)
Comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	12,096	(1,707)	(34,534)	-	(36,241)	(24,145)
Other changes in capital surplus:	-	-	-	-	-	-	-	-	-	-
Share-based payments transactions	(3,258)	213	-	-	-	-	-	823	823	(2,222)
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 December 31, 2018	\$ 524,790	27,000	51,494	45,440	35,280	(65,016)	(33,710)	(14)	(98,740)	585,264

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 17,094	14,517
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	3,759	4,206
Amortization expense	1,665	7,005
Expected credit loss (gain)/ Provision (reversal of provision) for bad debt expense	(24)	(368)
Interest expense	1,930	2,412
Interest income	(159)	(123)
Share-based payments transactions	(2,222)	78
Share of loss of associates and joint ventures accounted for using equity method	9,878	-
<b>Total adjustments to reconcile profit (loss)</b>	<u>14,827</u>	<u>13,210</u>
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in notes and accounts receivable	(12,267)	3,477
Increase in other receivables	(11)	(230)
Decrease (increase) in inventories	5,478	(26,851)
Decrease in prepayments	675	263
Decrease (increase) in other current assets	510	(538)
Increase in contract liabilities	664	-
Increase (decrease) in notes and accounts payable	(23,829)	2,919
Increase (decrease) in other payables	(1)	9,530
Decrease in provisions	(1,713)	(871)
Increase (decrease) in other operating liabilities	(1,826)	697
<b>Total changes in operating assets and liabilities</b>	<u>(32,320)</u>	<u>(11,604)</u>
<b>Total adjustments</b>	<u>(17,493)</u>	<u>1,606</u>
Cash flows from (used in) generated from operations	(399)	16,123
Interest received	159	123
Interest paid	(1,910)	(2,424)
Income taxes refund (paid)	(214)	624
<b>Net cash flows from (used in) operating activities</b>	<u>(2,364)</u>	<u>14,446</u>
<b>Cash flows from (used in) investing activities:</b>		
Prepayments for investments	-	(3,010)
Acquisition of investments accounted for using equity method	(31,527)	-
Acquisition of property, plant and equipment	(1,179)	(1,271)
Decrease in refundable deposits	1,701	(48)
Acquisition of intangible assets	(2,861)	(1,378)
Decrease in guarantee deposits	22	-
<b>Net cash flows from (used in) investing activities</b>	<u>(33,844)</u>	<u>(5,707)</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase (decrease) in short-term borrowings	29,149	(1,430)
Other financing activities	680	-
<b>Net cash flows from (used in) financing activities</b>	<u>29,829</u>	<u>(1,430)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(1,676)</u>	<u>6,273</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(8,055)</u>	<u>13,582</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>108,369</u>	<u>94,787</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 100,314</u>	<u>108,369</u>

See accompanying notes to consolidated financial statements.

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

**Notes to the Consolidated Financial Statements**

**For the years ended December 31, 2018 and 2017**

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

**(1) Company history**

Associated Industries China, Inc. (the “Company”) was incorporated in May 18, 1978 as a company limited by shares, and registered under the Ministry of Economic Affairs, in the Republic of China. The Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The major business activities of the Group are the research, development and sale of LCD monitors, and related components, sale of medical equipment, and real estate rental business.

**(2) Approval date and procedures of the consolidated financial statements:**

These consolidated financial statements were authorized for issuance by the board of directors on March 20, 2019.

**(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(g).

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 a forward-looking ‘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(g).

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.

1) Determining whether an arrangement contains a lease

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.

(Continued)



## ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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.

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 chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
  - adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.
  - apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
  - exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
  - use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its offices and cars. The Group estimated that the right-of-use assets and the lease liabilities to both increase by \$33,680. Also, the Group is not required to make any adjustments for leases where the Group is the intermediate lessor in a sub-lease.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the Group estimated that there is no significant impact on the application of the amendments of tax liabilities.

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

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
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
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

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

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

**(4) Summary of significant accounting policies**

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically indicated, the following accounting policies were applied consistently throughout the presented periods in the consolidated financial statements.

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations” ) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

**(b) Basis of preparation**

**(i) Basis of measurement**

Except for financial instruments measured at fair value through profit or loss and fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value, the consolidated financial statements have been prepared on the historical cost basis.

**(ii) Functional and presentation currency**

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The Group consolidated financial statements are presented in New Taiwan Dollar, which is the Group’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

**(c) Basis of consolidation**

**(i) Principle of preparation of the consolidated financial statements**

The consolidated financial statements comprise the Company and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

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

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

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

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

List of subsidiaries in the consolidated financial statements:

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

(d) Foreign currencies

(i) Foreign currency transactions

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation:

- available-for-sale equity investment;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

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

When a foreign operation is disposed to such that control, significant influence or joint control is lost; the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, the foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

(e) Classification of current and non-current assets and liabilities

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

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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A liability is classified as current under one of the following criteria, and all other liabilities are classified as noncurrent.

An entity shall classify a liability as current when:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

(g) Financial instruments

(i) Financial assets (applicable from January 1, 2018)

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

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

1) Financial assets measured at amortized cost

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

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

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

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. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

2) Fair value through other comprehensive income (FVOCI)

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

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

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

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

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.

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

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. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

4) Business model assessment

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

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

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

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

5) Impairment of financial assets

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

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

- 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.

(Continued)



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

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.

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.

(Continued)

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

(ii) Financial assets (applicable before January 1, 2018)

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

1) Financial assets at fair value through profit or loss

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

2) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Investments in equity instruments that do not have any quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at cost, less, impairment loss, and are included in financial assets measured at cost.

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

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established. Such dividend income is included in non-operating income and expenses.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables, other receivables and refundable deposits. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Interest income is recognized in profit or loss, and is included in non-operating income and expenses.

4) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

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

(Continued)

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

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available for sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

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

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables are included in operating expense, others are included in non-operating income and expense.

5) Derecognition of financial asset

The Group derecognizes its financial assets when the contractual rights of the cash inflow from the assets are terminated, or when the Group transfers substantially all the risks and rewards of ownership on its financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in non-operating income and expenses.

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

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

(iii) Financial liabilities

1) Classification of debt of equity

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

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

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if acquired principally for the purpose of selling in the short term. This type of financial liability is measured at fair value at the time of initial recognition, and attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and are included in non-operating income or expenses.

3) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method other than insignificant interest on short-term loans and payables. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income or expense.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

5) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

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

(iv) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

(h) Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Investment 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.

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.

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

(j) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently. The depreciation is computed along with the depreciable amount. The method, the useful life and the residual amount are the same with those of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property, plant and equipment, the carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. Cost also includes foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expense.

(ii) Subsequent cost

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

(iii) Depreciation

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

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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

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

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

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

(iv) Reclassification to investment property

The property is reclassified to investment property at its carrying amount when the use of the property changes from internal use to investment use.

(l) Lease

(i) The Group as lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

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

(Continued)



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

(ii) The Group as lessee

Operating leases are not recognized in the Group's balance sheet.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense on a straight-line basis, over the term of the lease.

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

(m) Intangible assets

(i) Goodwill

1) Initial recognition

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

2) Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses. Impairment loss on equity investment in investees accounted for under the equity method is not allocated to any asset, including goodwill that forms part of the carrying amount of such investment.

(ii) Other intangible assets

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

(iii) Subsequent Expenditure

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

(iv) Amortization

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

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

- 1) Computer software: 1~5 years.
- 2) Product development expenses: 1 years.

(Continued)

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

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(n) Impairment – non-derivative financial assets

The carrying amounts of the Group's nonfinancial assets, other than assets arising from inventories, deferred tax assets, and non-current assets classified as held for sale, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (the higher of its fair value less costs of disposal and its value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cashgenerating unit (CGU).

The recoverable amount for an individual asset or a CGU is the higher of its fair value, less, costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

(o) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(p) Revenue

(i) 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.

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

1) 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.

2) 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.

(ii) Revenue (applicable before January 1, 2018)

1) Sales of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

2) Rental income

Rental income from investment property is recognized in income on a straight-line basis over the lease term. Incentives granted to the lessee to enter in to the operating lease are considered as part of rental income which are spread over the lease term on a straight-line basis so that the rental income received is reduced accordingly.

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

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

(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to the defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Short-term employee benefits

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

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

(r) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there are no differences between the expected and the actual outcomes.

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

(s) Income taxes

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

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

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

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

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

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

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

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

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

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

(t) Earnings (loss) per share

The Group discloses the basic and diluted earnings (loss) per share attributable to ordinary equity holders of the Company. The calculation of basic earnings (loss) per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings (loss) per share is based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee stock options and employee bonuses not yet resolved by the shareholders.

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

(u) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

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

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments in applying accounting policies that have significant effect on amounts recognized in the consolidated financial statements.

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

(a) Valuation of inventories

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

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Petty cash, checking accounts and demand deposits	\$ 96,931	104,987
Time deposits	3,383	3,382
	<u>\$ 100,314</u>	<u>108,369</u>

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

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

(b) Financial assets at fair value through other comprehensive income-non-current

	<u>December 31,</u> <u>2018</u>
Equity investments at fair value through other comprehensive income:	
Preferred stock unlisted on foreign market	
Foreign Company-IRONYUN	\$ <u>          -</u>
(i) The Group designated the investments shown above as equity securities at fair value through other comprehensive income. These investments were classified as non-current financial assets carried at cost on December 31, 2017.	
(ii) As of December 31, 2018, the Group's cumulative investment in IRONYUN INCORPORATED was \$33,710. As of January 1, 2018, the book value after retrospective application was \$36,984 (including prepayments for investments), then the Group measured its fair value reduce to \$0, and recognized unrealized loss \$36,984, recorded as unrealized loss from financial assets measured at fair value through other comprehensive income.	
(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(F) for other related information.	
(iv) As of December 31, 2018, the Group did not provide any of the aforementioned financial assets as collaterals for its loans.	

(c) Non-current financial assets carried at cost

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

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

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

**Notes to the Consolidated Financial Statements**

- (ii) As of December 31, 2017, the Group purchased the common stock issued by IRONYUN INCORPORATED amounting to \$3,010, which was accounted for as non-current prepayments for investments since the Group had yet to acquire the shares.
- (iii) The Group's common stock unlisted on domestic markets and preferred stock unlisted on foreign markets are measured at amortized cost and are reduced by impairment losses at the reporting date.
- (iv) As of December 31, 2017, the Group did not provide any financial assets measured at cost non-current as collaterals for its loans.

(d) Notes and accounts receivable

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes receivable from operating activities	\$ 52	189
Accounts receivable	<u>98,535</u>	<u>86,146</u>
	98,587	86,335
Less: Loss allowance	(27)	(51)
Allowance for sales discounts	<u>-</u>	<u>(15)</u>
	<u><u>\$ 98,560</u></u>	<u><u>86,269</u></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 December 31, 2018. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision as of December 31, 2018 was determined as follows:

	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 90,336	0%	-
1 to 30 days past due	8,010	0.24%	19
31 to 90 days past due	<u>241</u>	3.32%	<u>8</u>
	<u><u>\$ 98,587</u></u>		<u><u>27</u></u>

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

	<u>December 31, 2017</u>
Current	\$ 75,071
Past due 1 to 30 days	11,007
Past due 31 to 90 days	<u>257</u>
	<u><u>\$ 86,335</u></u>

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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The movement in the allowance for notes and accounts receivable was as follows:

	<u>2018</u>	<u>2017</u> <u>Collectively assessed impairment</u>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 51	419
Adjustment on initial application of IFRS 9	<u>-</u>	
Balance on January 1, 2018 per IFRS 9	51	
Impairment loss reversed	<u>(24)</u>	<u>(368)</u>
Balance on December 31, 2018 and 2017	<u>\$ 27</u>	<u>51</u>

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

(e) Inventories

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Merchandise inventories	<u>\$ 205,082</u>	<u>210,915</u>

The details of cost of sales for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Cost of goods sold and expenses	\$ 500,197	526,053
Inventory valuation loss and obsolescence	<u>3,662</u>	<u>2,572</u>
	<u>\$ 503,859</u>	<u>528,625</u>

For the years ended December 31, 2018 and 2017, the writedown of inventories to net realizable value amounted to \$3,662 and \$2,572, respectively.

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

(f) 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.

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Details of the material associate is as follows:

<u>Name of Associate</u>	<u>Nature of the relationship with the Group</u>	<u>Main operating location/ Registered Country of the Company</u>	<u>Proportion of shareholding and voting rights December 31, 2018</u>
Taiwan Biophotonic Corporation (tBPC)	Shareholder with significant influence	Taiwan	26.30 %

The following is the aggregated financial information of the significant affiliates, and necessary changes have already been made to the information therein concerning the associates' consolidated financial statements based on the IFRS as endorsed by FSC to reflect the fair value adjustments made at the time of acquisition and adjustment for accounting policy variations.

1) Summarized financial information of tBPC

	<b>December 31, 2018</b>
Current assets	\$ 46,587
Non-current assets	64,141
Current liabilities	<u>(6,247)</u>
Net assets	<u>\$ 104,481</u>
Notes assets attributable to owners of the associate	<u>\$ 104,481</u>
	<b>For the seven months ended December 31, 2018</b>
Operating revenue	\$ 2,718
Loss from continuing operations (equal to comprehensive loss)	<u>\$ (31,145)</u>
Total comprehensive loss attributable to owners of the associate	<u>\$ (31,145)</u>
	<b>December 31, 2018</b>
Share of net assets of the associate to the Group at the acquisition date	\$ 35,670
Comprehensive loss attributable to the Group	<u>(8,305)</u>
Share of net assets of the associate as of December 31, 2018	27,365
Additional fair value adjustments of patented technology	46,994
Additional goodwill	<u>40,740</u>
Carrying amounts of the investment	<u>\$ 115,099</u>

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## (ii) Pledges

As of December 31, 2018, the Group did not provide any investment accounted for using equity method as collateral for its loans.

## (g) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2018 and 2017 were as follows:

	Land	Buildings and building improvement	Machinery and R&D equipment	Molding equipment and other equipment	Total
<b>Cost:</b>					
Balance on January 1, 2018	\$ 95,104	28,992	4,907	18,978	147,981
Additions	-	492	-	687	1,179
Transferred in	-	-	-	364	364
Transferred out	-	-	-	(182)	(182)
Effect of movements in exchange rates	-	-	65	(62)	3
Balance on December 31, 2018	<u>\$ 95,104</u>	<u>29,484</u>	<u>4,972</u>	<u>19,785</u>	<u>149,345</u>
Balance on January 1, 2017	\$ 95,104	28,416	4,888	21,700	150,108
Additions	-	576	189	506	1,271
Disposal and derecognitions	-	-	-	(3,506)	(3,506)
Effect of movements in exchange rates	-	-	(170)	278	108
Balance on December 31, 2017	<u>\$ 95,104</u>	<u>28,992</u>	<u>4,907</u>	<u>18,978</u>	<u>147,981</u>
<b>Depreciation:</b>					
Balance on January 1, 2018	\$ -	4,247	3,455	16,379	24,081
Depreciation for the year	-	1,002	531	1,043	2,576
Transferred out	-	-	-	(173)	(173)
Effect of movements in exchange rates	-	-	65	(49)	16
Balance on December 31, 2018	<u>\$ -</u>	<u>5,249</u>	<u>4,051</u>	<u>17,200</u>	<u>26,500</u>
Balance on January 1, 2017	\$ -	3,320	2,437	18,696	24,453
Depreciation for the year	-	927	1,142	954	3,023
Depreciation for the year	-	-	-	(3,506)	(3,506)
Effect of movements in exchange rates	-	-	(124)	235	111
Balance on December 31, 2017	<u>\$ -</u>	<u>4,247</u>	<u>3,455</u>	<u>16,379</u>	<u>24,081</u>
<b>Book value:</b>					
Balance on December 31, 2018	<u>\$ 95,104</u>	<u>24,235</u>	<u>921</u>	<u>2,585</u>	<u>122,845</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 December 31, 2017	<u>\$ 95,104</u>	<u>24,745</u>	<u>1,452</u>	<u>2,599</u>	<u>123,900</u>

As of December 31, 2018 and 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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## (h) Investments property

	<u>Land</u>	<u>Buildings and construction</u>	<u>Total</u>
<b>Cost</b>			
Balance as of January 1, 2018 (Same balance as of December 31, 2018)	\$ <u>111,400</u>	<u>59,151</u>	<u>170,551</u>
Balance as of January 1, 2017 (Same balance as of December 31, 2017)	\$ <u>111,400</u>	<u>59,151</u>	<u>170,551</u>
<b>Depreciation:</b>			
Balance on January 1, 2018	\$ -	4,535	4,535
Depreciation for the year	-	<u>1,183</u>	<u>1,183</u>
Balance on December 31, 2018	\$ <u>-</u>	<u>5,718</u>	<u>5,718</u>
Balance on January 1, 2017	\$ -	3,352	3,352
Depreciation for the year	-	<u>1,183</u>	<u>1,183</u>
Balance on December 31, 2017	\$ <u>-</u>	<u>4,535</u>	<u>4,535</u>
<b>Book value:</b>			
Balance on December 31, 2018	\$ <u>111,400</u>	<u>53,433</u>	<u>164,833</u>
Balance on January 1, 2017	\$ <u>111,400</u>	<u>55,799</u>	<u>167,199</u>
Balance on December 31, 2017	\$ <u>111,400</u>	<u>54,616</u>	<u>166,016</u>
<b>Fair Value:</b>			
Balance on December 31, 2018			\$ <u>207,890</u>
Balance on December 31, 2017			\$ <u>167,550</u>

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

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

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## (i) Intangible Assets

	<u>Product Development expense</u>	<u>Computer software and others</u>	<u>Total</u>
<b>Cost:</b>			
Balance on January 1, 2018	\$ 26,862	9,305	36,167
Additions	<u>-</u>	<u>2,861</u>	<u>2,861</u>
Balance on December 31, 2018	<u>\$ 26,862</u>	<u>12,166</u>	<u>39,028</u>
Balance on January 1, 2017	\$ 26,862	8,170	35,032
Additions	<u>-</u>	<u>1,378</u>	<u>1,378</u>
	<u>-</u>	<u>(243)</u>	<u>(243)</u>
Balance on December 31, 2017	<u>\$ 26,862</u>	<u>9,305</u>	<u>36,167</u>
<b>Amortization:</b>			
Balance on January 1, 2018	\$ 26,862	7,031	33,893
Amortization for the period	<u>-</u>	<u>1,665</u>	<u>1,665</u>
Balance on December 31, 2018	<u>\$ 26,862</u>	<u>8,696</u>	<u>35,558</u>
Balance on January 1, 2017	\$ 20,308	6,823	27,131
Amortization for the period	<u>6,554</u>	<u>451</u>	<u>7,005</u>
Disposals	<u>-</u>	<u>(243)</u>	<u>(243)</u>
Balance on December 31, 2017	<u>\$ 26,862</u>	<u>7,031</u>	<u>33,893</u>
<b>Book value:</b>			
Balance on December 31, 2018	<u>\$ -</u>	<u>3,470</u>	<u>3,470</u>
Balance on January 1, 2017	<u>\$ 6,554</u>	<u>1,347</u>	<u>7,901</u>
Balance on December 31, 2017	<u>\$ -</u>	<u>2,274</u>	<u>2,274</u>

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

## (j) Short-term borrowings

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unsecured bank loans	\$ 33,448	59,299
Secured bank loans	<u>84,000</u>	<u>29,000</u>
Total	<u>\$ 117,448</u>	<u>88,299</u>
Unused credit lines for short-term borrowings	<u>\$ 331,552</u>	<u>347,701</u>
Annual interest rates	<u>1.10%~3.34%</u>	<u>1.10%~2.57%</u>

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

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

(k) Provisions

	<u>2018</u>	<u>2017</u>
Balance on January 1	\$ 4,108	5,024
Provisions made during the period	1,722	3,308
Provisions used during the period	(2,325)	(3,179)
Provisions reversed during the period	(1,110)	(1,000)
Effect of movements in exchange rates	<u>18</u>	<u>(45)</u>
Balance on December 31	<u>\$ 2,413</u>	<u>4,108</u>

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

(l) Operating lease

(i) The Group as lessee

Non-cancellable operating lease rentals payable were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Less than one year	\$ 9,854	7,006
Between one and five years	24,487	15,823
Over than five years	<u>802</u>	<u>-</u>
	<u>\$ 35,143</u>	<u>22,829</u>

The Group leased several offices and cars under operating leases with lease terms of 1 to 7 years and had an option to renew the leases.

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

For the years ended December 31, 2018 and 2017, expenses recognized in profit or loss with respect to operating leases amounted to \$13,817 and \$12,366, respectively.

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(ii) The Group as lessor

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Less than one year	\$ 4,044	4,044
Between one and five years	<u>8,914</u>	<u>12,958</u>
	<u>\$ 12,958</u>	<u>17,002</u>

For the years ended December 31, 2018 and 2017, the rentals recognized in operating revenue amounted to \$4,044 and \$3,983, respectively; the direct costs incurred in rental, which were recognized as operating costs, amounted to \$1,588 and \$1,603, respectively.

(m) Employee benefits

The Company allocates no less than 6% of each employee's monthly wages to the labor pension personal account at Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

Other subsidiaries outside the ROC recognized the pension expenses and made the periodical payments under the defined contribution method.

The Group recognized pension costs under the defined contribution method amounting to \$3,387 and \$2,681 for the years ended December 31, 2018 and 2017, respectively. Payment was made to the Bureau of Labour Insurance.

(n) Income taxes

(i) Income tax expenses

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing from 2018.

- 1) The amount of income tax for the years ended December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Current tax expenses	<u>\$ 4,998</u>	<u>5,923</u>

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- 2) Reconciliation of income tax and profit before tax for 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Profit before tax	\$ 17,094	14,517
Income tax using the Company's domestic tax rate	3,419	2,468
Effect of tax rates in foreign jurisdiction	976	1,819
Recognition of domestic investment losses under the equity method	1,976	-
Recognition of previously unrecognized tax losses	(2,869)	-
Deferred tax assets unrecognized in respect of the current tax losses	13	2,644
Recognition of previously unrecognized temporary differences	(1,249)	(3,529)
Other	2,732	2,521
	<u>\$ 4,998</u>	<u>5,923</u>

- (ii) Deferred tax assets

- 1) Unrecognized deferred tax assets

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Tax effect of deductible temporary differences	\$ 90,520	78,147
The carryforward of unused tax losses	103,718	111,523
Foreign currency translation differences of foreign operations	13,003	10,762
	<u>\$ 207,241</u>	<u>200,432</u>

The company is able to control the timing of the reversal of the temporary differences related to the investments in subsidiaries on December 31, 2018 and 2017. The temporary differences arising from the investments in subsidiaries where there is a probability that such temporary differences will not reverse in the foreseeable future were not recognized as deferred tax assets.

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The R.O.C Income Tax Act allows net losses, as assessed by the tax authorities, to offset against taxable income over a period of ten years for local tax reporting purposes. The Company estimated tax losses which could be used to offset future taxable income as of December 31, 2018, were as follows:

<u>Year of loss</u>	<u>Unused tax credits</u>	<u>Expiry year</u>	<u>Remark</u>
2009	25,984	2019	(assessed)
2010	9,697	2020	(assessed)
2012	46,884	2022	(assessed)
2014	66,771	2024	(assessed)
2015	25,105	2025	(assessed)
2016	8,868	2026	(declared)
2017	2,593	2027	(estimated)
	<u>\$ 185,902</u>		

According to the US Tax Act, the assessed loss carryforward of AG Neovo USA can be used to offset against federal and state taxable income over a period of twenty years. As of December 31, 2018, AG Neovo USA had unused net operating loss of about US\$9,168 thousands and US\$772 thousands for federal and state income tax return purposes, respectively, which can be carried forward through 2037.

According to Dutch Tax Act, the assessed loss carryforward of AG Neovo B.V. can be used to offset against taxable income over a period of ten years. As of December 31, 2017, AG Neovo B.V. had unused net operating loss of about EUR\$650 thousands, which can be carried forward through 2024.

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

2) Recognized deferred tax assets: None.

(iii) The R.O.C tax authorities have examined the Company's income tax returns through 2016.

(o) Capital and other equities

As of December 31, 2018 and 2017, the Company's authorized common stocks were consisting of 200,000 thousand shares with a par value of 10 New Taiwan dollars per share amounted 2,000,000 of which 52,479 and 52,805 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

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(i) Ordinary shares

Reconciliation of shares outstanding for 2018 and 2017 were as follows:

Unit: in thousand shares

	<b>Common stock</b>	
	<b>2018</b>	<b>2017</b>
Balance on January 1	52,805	53,163
Cancellation of new restricted employee shares	(326)	(358)
Balance on December 31	<b>52,479</b>	<b>52,805</b>

326 and 358 thousand shares of employee restricted shares were cancelled in 2017 and 2016 as certain employees of the Company did not meet the vesting requirements, and the cancellation procedure had been completed.

(ii) Capital surplus

The balances of capital surplus were as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Additional paid-in capital	\$ 20,986	20,986
Restricted employee shares	(9)	530
Employee stock options	5,343	4,591
Donation from shareholders	680	-
	<b>\$ 27,000</b>	<b>26,107</b>

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

(iii) Retained Earnings

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

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

1) Legal reserve

In accordance with the Company Act, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to share capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualified for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. The balances of special reserve as of December 31, 2018 and 2017 are both \$45,440, respectively.

3) Earnings distribution

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 to be allocated.

(p) Share-based payment

(i) Restricted employee shares

At the meeting held on June 25, 2014, the Company's board of directors decided to issue 1,500 thousand shares of employee restricted shares to the Company's full-time employees who meet certain requirements. The restricted shares have been registered with and approved by the Securities and Futures Bureau of FSC. At the meeting held on October 13, 2014, the board of directors decided to issue the restricted shares in an installment basis. The Company issued the first restricted shares of 1,370 thousand, and the effective date of the share issuance was on October 22, 2014. At the meeting held on August 11, 2015, the board of directors decided to issue the second restricted shares of 126 thousand shares, and the effective date of the share issuance was on September 11, 2015.

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1,370 thousand shares and 126 thousand shares of the aforementioned restricted shares were issued without consideration. 20%, 20%, 30% and 30% of the 1,370 thousand restricted shares and 126 thousand restricted shares were vested respectively when the employees continue to provide service for at least 1 year, 2 years, 3 years and 4 years from the registration and the effective date, and at the same time, meet the performance requirement. After the issuance, the restricted shares are kept by a trust, which is appointed by the Company, before they are vested. These restricted shares shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. The voting rights of these shares are executed by the custodian, and the custodian shall act based on the law and regulations.

If the shares remain unvested after the vesting period, the Company will purchase all the unvested shares without consideration and cancel the shares thereafter. Restricted shares could be distributed as cash or stock dividends. Employees who are given restricted shares are entitled to partake in the cash injection plan of the Company. The aforementioned new shares are also kept by a trust. If the employees of the Company fail to meet the vesting requirements, the cash or stock dividends will be withdrawn in the form of cash, and a shares cancellation procedure will be performed. However, if employees are able to meet such requirements, the cash or stock dividends will be paid to individual accounts from the trust.

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

	Unit: in thousand shares	
	2018	2017
Outstanding units at January 1	334	692
Forfeited during the period	(326)	(358)
Outstanding units at December 31	<b>8</b>	<b>334</b>

As of December 31, 2018 and 2017, the unearned employee benefits were \$14 and \$837, respectively.

The reversed compensation cost related to restricted stock amounted to \$2,974 and \$1,923 in 2018 and 2017, respectively.

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(ii) Employee stock options

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

	2018		2017	
	Shares (in thousands)	Weighted- average exercise price (NT dollars)	Shares (in thousands)	Weighted- average exercise price (NT dollars)
Outstanding shares on January 1	1,850	\$ 10.00	1,850	10.00
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Outstanding shares on December 31	<u>1,850</u>	\$ 10.00	<u>1,850</u>	10.00
Exercisable shares on December 31	<u>-</u>	-	<u>-</u>	-

As of December 31, 2018, the weighted-average remaining contractual life of the outstanding stock options was 0.83 years.

The issuance terms of the stock options are as follows:

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

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

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

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

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

The compensation cost related to employee stock options amounted to \$752 and \$2,001 in 2018 and 2017. As of December 31, 2018 and 2017, the capital surplus related to employee stock options was \$5,343 and \$4,591.

- (q) Earnings per share

Basic earnings per share and diluted earnings per share for the years ended December 31, 2018 and 2017, was computed as follows:

	<u>2018</u>	<u>2017</u>
<b>Basic earnings per share:</b>		
Net income	<u>12,096</u>	<u>8,594</u>
Weighted-average number of shares outstanding (thousands)	<u>52,471</u>	<u>52,471</u>
Basic earnings per share (dollars)	<u>\$ 0.23</u>	<u>0.16</u>
<b>Diluted earnings per share:</b>		
Weighted-average number of shares outstanding (thousands)	52,471	52,471
Effect of restricted employee shares unvested	<u>7</u>	<u>224</u>
Weighted-average number of shares outstanding (thousand)	<u>52,478</u>	<u>52,695</u>
Diluted earnings per share (dollars)	<u>0.23</u>	<u>0.16</u>

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

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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## (r) Revenue from contracts with customers

## (i) Disaggregation of revenue

	<u>2018</u>	<u>2017</u>
Primary geographical markets		
Netherland	\$ 174,271	156,668
Germany	196,448	196,506
United States	41,684	43,475
Other	<u>334,206</u>	<u>347,622</u>
	<u>\$ 746,609</u>	<u>744,271</u>
Major products		
LCD monitors	\$ 726,902	718,128
Medical equipment	6,702	9,411
Others accessories	8,961	12,749
Rental revenue	<u>4,044</u>	<u>3,983</u>
	<u>\$ 746,609</u>	<u>744,271</u>

## (ii) Contract balances

- 1) Please refer to note 6(e) for the information of accounts receivable and the impairment.
- 2) Contract liability

	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Contract liability (Unearned sales revenue)	\$ <u>664</u>	<u>866</u>

The amount of revenue recognized for the year ended December 31, 2018 that included in the contract liability balance at the beginning of the period was \$866.

## (s) Remuneration to employees, directors and supervisors

According to the Company's articles of incorporation which, before revised, 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.

According to the company's articles of incorporation which were revised on June 13, 2018, 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' 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.

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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The remunerations to employees amounted to \$1,344, and the remunerations to directors amounted to \$0 for the year ended December 31, 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 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.

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

(t) Financial Instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration to credit risk

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

3) Receivables and debt securities

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

Other financial assets at amortized cost include cash and cash equivalents, other receivables, and guaranteed deposits, are considered to have low risk, and thus, the impairment provision recognized during the period is limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(g).

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

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
<b>December 31, 2018</b>				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 117,448	(117,448)	(117,448)	-
Notes and accounts payable	42,852	(42,852)	(42,852)	-
Other payables	59,185	(59,185)	(59,185)	-
Guarantee deposits	<u>945</u>	<u>(945)</u>	<u>-</u>	<u>(945)</u>
	<u>\$ 220,430</u>	<u>(220,430)</u>	<u>(219,485)</u>	<u>(945)</u>
<b>December 31, 2017</b>				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 88,299	(88,299)	(88,299)	-
Notes and accounts payable	66,681	(66,681)	(66,681)	-
Other payables	53,883	(53,883)	(53,883)	-
Guarantee deposits	<u>945</u>	<u>(945)</u>	<u>-</u>	<u>(945)</u>
	<u>\$ 209,808</u>	<u>(209,808)</u>	<u>(208,863)</u>	<u>(945)</u>

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

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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(iii) Market risk

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

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2018			December 31, 2017		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD	\$ 1,470	USD/TWD =30.715	45,161	1,238	USD/TWD =29.76	36,855
USD	25	USD/EUR =1.146	764	173	USD/EUR =1.1952	5,152
Financial liabilities						
Monetary items						
USD	703	USD/TWD =30.715	21,599	1,208	USD/TWD =29.76	35,964

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable, other receivables, short-term borrowings, notes and accounts payable, and other payables that are denominated in foreign currency.

A weakening (strengthening) 5% of each foreign currency against the functional currency on December 31, 2018 and 2017 would have affected the net profit before tax as follows:

	December 31, 2018	December 31, 2017
USD (against the TWD)		
Appreciate 5%	\$ 1,178	45
Depreciate 5%	(1,178)	(45)
USD (against the EUR)		
Appreciate 5%	38	258
Depreciate 5%	(38)	(258)

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 years ended December 31, 2018 and 2017, the foreign exchange gains (losses), including realized and unrealized, amounted to \$(3,376) and \$2,372, respectively.

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

(iv) Interest rate analysis

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

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Variable rate instruments (carrying amount):		
Financial assets	\$ 81,401	85,624
Financial liabilities	(117,448)	(88,299)

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

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have decreased or increased by \$90 and \$7 for the years ended December 31, 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, financial instruments used for hedging and of financial assets at fair value through other comprehensive income are measured on a recurring basis.

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

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

(Continued)

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

<b>December 31, 2018</b>					
	<u>Book value</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	\$ 100,314	-	-	-	-
Notes and accounts receivable	98,560	-	-	-	-
Other receivables	419	-	-	-	-
Restricted bank deposits (recognized as other current assets)	<u>129</u>	-	-	-	-
	<u>\$ 199,422</u>				
<b>Financial liabilities measured at amortized cost</b>					
Short-term borrowing	117,448	-	-	-	-
Notes and accounts payable	42,852	-	-	-	-
Other payables	59,185	-	-	-	-
Guaranteed deposits	<u>945</u>	-	-	-	-
	<u>\$ 220,430</u>				
<b>December 31, 2017</b>					
	<u>Book value</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Financial assets carried at cost</b>					
<b>Loans and receivables</b>					
Cash and cash equivalents	108,369	-	-	-	-
Notes and accounts receivable	86,269	-	-	-	-
Other receivables	406	-	-	-	-
Restricted bank deposits (recognized as other current assets)	<u>151</u>	-	-	-	-
Subtotal	<u>195,195</u>				
	<u>\$ 275,895</u>				
<b>Financial liabilities at amortized cost</b>					
Short-term borrowing	\$ 88,299	-	-	-	-
Notes and accounts payable	66,681	-	-	-	-
Other payables	53,883	-	-	-	-
Guaranteed deposits	<u>945</u>	-	-	-	-
<b>Total</b>	<u>\$ 209,808</u>				

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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2) Fair value valuation technique for financial instruments not measured at fair value

The book value of financial assets and liabilities at amortized cost 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 among fair value hierarchies for the years ended December 31, 2018 and 2017.

5) Reconciliation of level 3 fair values (classified as financial assets at fair value through other comprehensive income for the year ended December 31, 2018)

		<u>2018</u>
Balance on January 1, 2018	\$	124,974
Transferred from prepayments for investment		3,010
Total profit or loss recognized		
In other comprehensive income		(34,534)
Change to equity method		(93,450)
Balance on December 31, 2018	\$	<u><u>-</u></u>

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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(u) Financial risk management

(i) Briefings

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

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

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

(ii) Structure of risk management

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

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

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash in banks.

1) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, and these limits are reviewed periodically. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. The Group constantly assesses the financial status of the customers.

The Group's customers are mainly from wide range customer base. The Group does not concentrate on a specific customer, thus, there should be no concern on the significant concentrations of accounts receivable credit risk. And in order to mitigate accounts receivable credit risk, the Group constantly assesses the financial status of the customers, and does not request the customers to provide any guarantee or security.

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

## 2) Cash and cash in banks

The Group deposits the cash in different financial institutions for the purpose of controlling the credit risk in each financial institution. Therefore, there is no significant credit risk of bank deposits.

## 3) Guarantees

Please refer to note 13(a) for the Group provides financial guarantees to subsidiaries as of December 31, 2018.

## (iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements.

The loans and borrowings from the bank forms an important source of liquidity for the Group. As of December 31, 2018 and 2017, the unused short-term bank facilities were \$331,552 and \$347,701, respectively.

## (v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

## 1) Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily, the New Taiwan Dollars (TWD), Euro (EUR), US Dollars (USD), and Chinese Yuan (CNY).

The Group uses the derivative financial instrument for hedging. Hence, the gains or losses deriving from the fluctuation of exchange rate will be offset with the hedging item. The market risk is insignificant.

## 2) Interest rate risk

The Group borrows funds on variable interest rates, which has a risk exposure in cash flow.

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

(v) Capital management

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

The Group monitors the capital structure by way of periodical review on the liability ratio. The Group's capital is the "total equity" in the balance sheet, same with the total liabilities being subtracted to the total assets.

As of December 31, 2018 and 2017, the liability ratio were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total liabilities	\$ 232,644	225,315
Total assets	817,908	791,992
Liability ratio	28 %	28 %

As of December 31, 2018, there were no changes in the Group's approach to capital management.

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

- (i) The Group's investing and financing activities which did not affect the current cash flow for the year ended December 31, 2018: the inventory was transferred to the equipment and the equipment was transferred to the inventory amounting to \$355.
- (ii) There is no non-cash investing and financing activities for the year ended December 31, 2017.
- (iii) Reconciliation of liabilities arising from financing activities were as follows:

	<u>January 1, 2018</u>	<u>Cash flows</u>	<u>December 31, 2018</u>
Short-term borrowings	\$ <u>88,299</u>	<u>29,149</u>	<u>117,448</u>

(7) Related-party transactions:

Key management personnel compensation

Key management personnel compensation comprised:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 13,456	9,484
Post-employment benefits	<u>216</u>	<u>216</u>
	<u>\$ 13,672</u>	<u>9,700</u>

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**(8) Pledged assets:**

The carrying amounts of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Land and buildings	Guarantee for short-term loans and the credit line	\$ 116,418	116,902
Investment property	//	164,833	166,016
Restricted bank deposits	Warranty guarantee	<u>129</u>	<u>151</u>
		<u>\$ 281,380</u>	<u>283,069</u>

**(9) Commitments and contingencies:None****(10) Losses Due to Major Disasters: None****(11) Subsequent Events: None****(12) Other:**

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

By function	2018			2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
<b>By item</b>						
Employee benefits						
Salary	-	102,532	102,532	-	93,781	93,781
Labor and health insurance	-	13,328	13,328	-	12,480	12,480
Pension	-	3,387	3,387	-	2,681	2,681
Others	-	4,479	4,479	-	3,390	3,390
Depreciation	1,183	2,576	3,759	1,183	3,023	4,206
Amortization	917	748	1,665	6,704	301	7,005

Note: The depreciation for the years ended December 31, 2018 and 2017 included the depreciation of investment property both amounted to \$1,183.

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

**(a) Information on significant transactions:**

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group in 2018:

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

(In Thousands of New Taiwan Dollars and US dollars)

Number	Name of lender	Name of borrower	Account name	Related Parties	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
0	The Company	AG Neovo USA	Accounts Receivable-Related Parties	Yes	6,143 (US\$200)	-	-	2%	Short-term financing	-	Operating turnover	-	-	-	117,053	234,106

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 USD30.715 on December 31, 2018.

**(ii) Guarantees and endorsements for other parties:**

(In Thousands of New Taiwan Dollars and US dollars)

No.	Name of guarantor	Counter-party of guarantee and endorsement		Limitation on amount of guarantees and endorsements for a specific enterprise	Highest balance for guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date (note 4)	Actual usage amount during the period	Property pledged for guarantees and endorsements (Amount)	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount for guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary (note)	Subsidiary endorsements/ guarantees to third parties on behalf of parent company (note)	Endorsements/ guarantees to third parties on behalf of companies in Mainland China (note)
		Name	Relationship with the Company										
0	The Company	AG Neovo B.V	100% owned subsidiary	585,264	150,000	150,000	8,448	-	25.63 %	585,264	Yes	No	No
0	"	AG Neovo USA	"	585,264	30,000	30,000	-	-	5.13 %	585,264	Yes	No	No

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

**(iii) Securities held as of December 31, 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				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company	IRONYUN INCORPORATED	-	Financial assets measured at fair value through other comprehensive income	6,025	-	5.92 %	-	6,025	5.92 %	Note

Note: Preferred stock and common stock are 5,512 and 513 thousands shares.

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

(In Thousands of New Taiwan Dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase /Sale	Amount	Percentage of total purchases/ sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	AG Neovo B.V	100% owned subsidiary	(Sale)	(389,538)	(94) %	Depending on the demand for funding	Not applicable	General transactions for 30 to 150 days collection	Note 1	-%	Note 2

Note 1 : As of December 31, 2018, the amount of unearned sales revenue was NT\$129,495 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:

As of December 31, 2018, the Group did not have any unsettled derivative financial instruments.

- (x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company name	Counter party	Relationship (Note 2)	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Accounts name	Amount	Terms	
0	The Company	AG Neovo B.V	1	Operating revenue	389,538	The price is marked up based on the operating cost, and the receivables depend on the funding demand with in the credit period.	52.17 %
0	"	"	1	Unearned sales revenue	129,495	"	15.83 %
0	"	AG Neovo USA	1	Operating revenue	5,302	"	0.71 %
0	"	"	1	Unearned sales revenue	7,451	"	0.91 %

Note 1: The numbers filled in as follows:

1.0 represents the Company.

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

Note 2: Relationship with the transactions labeled as follows:

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

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

3 represents the transactions between subsidiaries.

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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(b) Information on investees:

The following is the information on investees for the year 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 December 31, 2018			Highest balance during the year		Net income (losses) of Investee (Note2)	Share of profits / losses of investee (Note1)	Note
				December 31, 2018 (Note 1)	December 31, 2017 (Note 1)	Shares	Percentage of ownership	Carrying value (Note 1)	Shares	Percentage of ownership			
The Company	GMF	British Virgin Islands	Investment	313,522	313,522	0.7	100 %	23,149	0.7	100 %	(1,952)	(1,952)	Note 3
"	AG Neovo B.V	Netherlands	Sales LCD monitors	187,013	187,013	4.8	100 %	200,326	4.8	100 %	14,896	14,896	"
"	AG Neovo Investment	British Virgin Islands	Investment	14,796	14,796	0.5	100 %	13,083	0.5	100 %	(2,257)	(2,257)	"
"	Taiwan Biophotonic Corporation	Taiwan	Manufacturing and sale of medical equipment	81,527	50,000	8,153	26 %	115,099	8,153	26 %	(31,145)	(9,878)	"
GMF	AG Neovo International	British Virgin Islands	Investment	14,743 (US\$ 480)	14,743 (US\$ 480)	0.01	100 %	7 (US\$ -)	0.01	100 %	- (US\$ -)	Recognized by shareholding percentage by GMF	Note 3
"	AG Neovo USA	U.S.A.	Sales LCD monitors and medical equipment	61,430 (US\$ 2,000)	61,430 (US\$ 2,000)	701	100 %	21,485 (US\$ 699)	701	100 %	(2,520) (US\$ (83))	-	"

Note1: The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.715 on December 31, 2018.

Note2: The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.1897 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 December 31, 2018 (Note 2)	Net income (losses) of the investee (Note 3)	Percentage of ownership	Highest balance during the year		Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow				Shares	Percentage of ownership			
AG Neovo (Shanghai)	Sales LCD monitors	15,358 (US\$500)	Note 1	15,358 (US\$500)	-	-	15,358 (US\$500)	(2,023) (US\$67)	100%	-	100%	(2,023) (US\$67)	13,719 (US\$447)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2018 (Notes 2 and 4)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 2 and 4)	Upper Limit on Investment
123,966 (US\$4,036)	123,966 (US\$4,036)	351,158

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 USD30.715 on December 31, 2018.

Note 3 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.1897 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**  
**Notes to the Consolidated Financial Statements**

**(14) Segment information:****(a) General Information**

The major business activities of the Group are research, development and sale of LCD monitors and related components, sale of medical equipments, and real estate rental business. Our reportable operating segments based on the sales operation area are Europe, Americas, Taiwan and others.

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

The accounting policies of operating segments are the same as those described in note 4 “significant accounting policies”. The operating segment information was as follows:

	2018					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
<b>Revenue</b>						
Revenue from external customers	\$ 674,027	39,045	20,599	12,938	-	746,609
Revenue from segments	<u>5,677</u>	<u>636</u>	<u>394,840</u>	<u>503</u>	<u>(401,656)</u>	<u>-</u>
	<u>\$ 679,704</u>	<u>39,681</u>	<u>415,439</u>	<u>13,441</u>	<u>(401,656)</u>	<u>746,609</u>
<b>Reportable segment profit (loss)</b>	<u>\$ 19,869</u>	<u>(1,928)</u>	<u>12,095</u>	<u>(2,254)</u>	<u>(10,688)</u>	<u>17,094</u>
<b>Reportable segment assets</b>						<u>817,908</u>
<b>Reportable segment liabilities</b>						<u>524,790</u>
	2017					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
<b>Revenue</b>						
Revenue from external customers	\$ 645,868	50,299	25,380	22,724	-	744,271
Revenue from segments	<u>3,728</u>	<u>319</u>	<u>308,318</u>	<u>1,105</u>	<u>(313,470)</u>	<u>-</u>
	<u>\$ 649,596</u>	<u>50,618</u>	<u>333,698</u>	<u>23,829</u>	<u>(313,470)</u>	<u>744,271</u>
Interest expense	(967)	-	(1,445)	-	-	(2,412)
Depreciation and amortization	(411)	(681)	(10,077)	(42)	-	(11,211)
<b>Reportable segment profit (loss)</b>	<u>\$ 20,532</u>	<u>(3,844)</u>	<u>8,594</u>	<u>1,241</u>	<u>(12,006)</u>	<u>14,517</u>
<b>Reportable segment assets</b>						<u>791,992</u>
<b>Reportable segment liabilities</b>						<u>528,048</u>

**(c) Production information**

The Group’s information about the revenue from external customers, please refer Note (6)(r).

(Continued)

**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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(d) Geographic information

The Group's sales presented by customer location and non-current assets presented by location, refer Note (6)(r), and the geographic information of non-current assets was as follows:

Non-current assets:

<u>Country</u>	<u>2018</u>	<u>2017</u>
Taiwan	\$ 290,210	291,408
Others	<u>1,621</u>	<u>3,165</u>
	<u>\$ 291,831</u>	<u>294,573</u>

Non-currents assets include property, plant and equipment, investments property, intangible assets and other assets but financial instruments and deferred tax assets are excluded.

(e) Information about major customers

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

<u>Customer</u>	<u>2018</u>	<u>2017</u>
A Company	\$ 119,528	86,297
B Company	<u>78,884</u>	<u>86,655</u>
	<u>\$ 198,412</u>	<u>172,952</u>