

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

CONSOLIDATED FINANCIAL STATEMENTS

**With Independent Auditors' Review Report
for the Three Months Ended March 31, 2019 and 2018**

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

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Associated Industries China, Inc. and its subsidiaries ("the Group") as of March 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Basis for Qualified Conclusion

As stated in Note 4(b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect the total assets amounting to \$37,249 thousand and \$37,171 thousand, constituting 4.14% and 4.12% of the consolidated total assets; the total liabilities amounting to \$9,851 thousand and \$4,290 thousand, constituting 2.98% and 1.49% of the consolidated total liabilities as of March 31, 2019 and 2018, respectively, total comprehensive income (loss) amounting to \$(3,543) thousand and \$(1,566) thousand, constituting 18.14% and 38.31% of the absolute value of the consolidated total comprehensive income (loss) for the three months ended March 31, 2019 and 2018, respectively.

Furthermore, as stated in Note 6(f), the other equity accounted investments of the Group in its investee companies of \$111,433 thousand as of March 31, 2019, and its equity in net earnings on the investee companies amounting to \$(3,666) thousand for the three months ended March 31, 2019, was recognized solely on the financial statements prepared by the investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors’ review report are Yiu-Kwan Au and Kuan-Ying Kuo.

KPMG

Taipei, Taiwan (Republic of China)

May 8, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of March 31, 2019 and 2018

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019, December 31, 2018, and March 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2019		December 31, 2018		March 31, 2018	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note 6(a))	\$ 103,666	12	100,314	12	106,285	12
1110 Current financial assets at fair value through profit or loss (note 6(b))	694	-	-	-	258	-
1170 Notes and accounts receivable, net (note 6(d))	64,786	7	98,560	12	92,120	10
1200 Other receivables	244	-	419	-	461	-
1300 Inventories, net (note 6(e))	278,732	31	205,082	25	261,066	29
1410 Prepayments	14,988	2	5,431	1	11,630	2
1470 Other current assets (note 8)	1,766	-	1,173	-	2,132	-
	<u>464,876</u>	<u>52</u>	<u>410,979</u>	<u>50</u>	<u>473,952</u>	<u>53</u>
Non-current assets:						
1517 Non-current financial assets at fair value through other comprehensive income (note 6(c))	-	-	-	-	124,974	14
1550 Investments accounted for using equity method (note 6(f))	111,433	12	115,099	14	-	-
1600 Property, plant and equipment (notes 6(g) and 8)	122,359	14	122,845	15	123,841	14
1755 Right-of-use assets (note 6(h))	30,793	4	-	-	-	-
1760 Investment property, net (notes 6(i) and 8)	164,537	18	164,833	20	165,720	18
1780 Intangible assets, net (note 6(j))	3,834	-	3,470	1	2,995	-
1900 Other non-current assets	901	-	682	-	697	-
1960 Non-current prepayments for investments (note 6(c))	-	-	-	-	9,676	1
	<u>433,857</u>	<u>48</u>	<u>406,929</u>	<u>50</u>	<u>427,903</u>	<u>47</u>
Total assets	<u>\$ 898,733</u>	<u>100</u>	<u>817,908</u>	<u>100</u>	<u>901,855</u>	<u>100</u>
Liabilities						
Current liabilities:						
2100 Short-term borrowings (note 6(k))	\$ 104,000	12	117,448	15	85,837	10
2130 Current contract liabilities (note 6(i))	198	-	664	-	45	-
2170 Notes and accounts payable	131,295	15	42,852	5	130,929	15
2200 Other payables	58,799	6	65,979	8	65,401	7
2250 Current provisions (note 6(l))	2,121	-	2,413	-	2,589	-
2280 Current lease liabilities (note 6(m))	8,880	1	-	-	-	-
2300 Other current liabilities	2,793	-	2,343	-	1,619	-
	<u>308,086</u>	<u>34</u>	<u>231,699</u>	<u>28</u>	<u>286,420</u>	<u>32</u>
Non-current liabilities:						
2580 Non-current lease liabilities (note 6(m))	22,002	3	-	-	-	-
2600 Other non-current liabilities	945	-	945	-	945	-
	<u>22,947</u>	<u>3</u>	<u>945</u>	<u>-</u>	<u>945</u>	<u>-</u>
	<u>331,033</u>	<u>37</u>	<u>232,644</u>	<u>28</u>	<u>287,365</u>	<u>32</u>
Total liabilities	<u>543,590</u>	<u>60</u>	<u>524,790</u>	<u>64</u>	<u>528,048</u>	<u>58</u>
Equity attributable to owners of parent: (notes 6(g) and (r))	<u>24,744</u>	<u>3</u>	<u>27,000</u>	<u>4</u>	<u>26,295</u>	<u>3</u>
Common stock	51,494	6	51,494	6	51,494	6
Capital surplus	45,440	5	45,440	6	45,440	5
Retained earnings:						
Legal reserve	18,684	2	35,280	4	(17,495)	(2)
Special reserve	115,618	13	132,214	16	79,439	9
Unappropriated retained earnings (accumulated deficits)	(116,252)	(13)	(98,740)	(12)	(19,292)	(2)
Other equity interest	567,700	63	585,264	72	614,490	68
Total equity	<u>898,733</u>	<u>100</u>	<u>817,908</u>	<u>100</u>	<u>901,855</u>	<u>100</u>
Total liabilities and equity	<u>\$ 898,733</u>	<u>100</u>	<u>817,908</u>	<u>100</u>	<u>901,855</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

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

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2019 and 2018

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

		For the three months ended March 31			
		2019		2018	
		Amount	%	Amount	%
4000	Operating revenues, net (note 6(t)):				
4110	Sales revenue	\$ 146,343	103	190,198	104
4190	Less: sales returns and allowances	5,583	4	7,850	4
4310	Rental income (note 6(n))	1,011	1	1,011	-
		<u>141,771</u>	<u>100</u>	<u>183,359</u>	<u>100</u>
5000	Cost of sales (notes 6(e) and 12)	<u>94,746</u>	<u>67</u>	<u>125,552</u>	<u>69</u>
5950	Gross profit	<u>47,025</u>	<u>33</u>	<u>57,807</u>	<u>31</u>
	Operating expenses (notes 6(o) and 12):				
6100	Selling expenses	36,102	25	34,373	19
6200	Administrative expenses	18,213	13	15,172	8
6300	Research and development expenses	3,708	3	3,853	2
		<u>58,023</u>	<u>41</u>	<u>53,398</u>	<u>29</u>
	Net operating income (loss)	<u>(10,998)</u>	<u>(8)</u>	<u>4,409</u>	<u>2</u>
	Non-operating income and expenses:				
7100	Interest income	13	-	25	-
7190	Other income	17	-	74	-
7230	Foreign exchange gains(losses), net	(658)	(1)	(319)	-
7235	Gains(loss) on financial assets at fair value through profit or loss	1,141	1	(115)	-
7510	Interest expense	(548)	-	(385)	-
7770	Share of loss of associates and joint ventures accounted for using equity method (note 6(f))	(3,666)	(3)	-	-
		<u>(3,701)</u>	<u>(3)</u>	<u>(720)</u>	<u>-</u>
7900	Profit (loss) before tax	<u>(14,699)</u>	<u>(11)</u>	<u>3,689</u>	<u>2</u>
7950	Less: Income tax expenses (note 6(p))	<u>1,897</u>	<u>1</u>	<u>918</u>	<u>1</u>
	Profit (loss)	<u>(16,596)</u>	<u>(12)</u>	<u>2,771</u>	<u>1</u>
8300	Other comprehensive income (loss):				
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign financial statements	(2,932)	(2)	1,316	1
	Subsequent total of item that may be reclassified to profit or loss	<u>(2,932)</u>	<u>(2)</u>	<u>1,316</u>	<u>1</u>
8300	Other comprehensive income (loss), net	<u>(2,932)</u>	<u>(2)</u>	<u>1,316</u>	<u>1</u>
8500	Comprehensive income (loss)	<u>\$ (19,528)</u>	<u>(14)</u>	<u>4,087</u>	<u>2</u>
	Earnings per share (note 6(s))				
9750	Basic earnings per share (NT dollars)	<u>\$ (0.32)</u>		<u>0.05</u>	
9850	Diluted earnings per share (NT dollars)			<u>\$ 0.05</u>	

See accompanying notes to consolidated financial statements.

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

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings							Other equity interest		
	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	Total equity
Balance at January 1, 2018	\$ 528,048	26,107	51,494	45,440	(20,266)	(63,309)	-	(837)	(64,146)	566,677
Effects of retrospective application	-	-	-	-	-	-	44,274	-	44,274	44,274
Balance at January 1, 2018 after adjustments	528,048	26,107	51,494	45,440	(20,266)	(63,309)	44,274	(837)	(19,872)	610,951
Profit for the three months ended March 31, 2018	-	-	-	-	2,771	-	-	-	-	2,771
Other comprehensive income for the three months ended March 31, 2018	-	-	-	-	-	1,316	-	-	1,316	1,316
Comprehensive income for the three months ended March 31, 2018	-	-	-	-	2,771	1,316	-	-	1,316	4,087
Share-based payments transactions	-	188	-	-	-	-	-	(736)	(736)	(548)
Balance at March 31, 2018	\$ 528,048	26,295	51,494	45,440	(17,495)	(61,993)	44,274	(1,573)	(19,292)	614,490
Balance at January 1, 2019	\$ 524,790	27,000	51,494	45,440	35,280	(65,016)	(33,710)	(14)	(98,740)	585,264
Profit for the three months ended March 31, 2019	-	-	-	-	(16,596)	-	-	-	-	(16,596)
Other comprehensive income (loss) for the three months ended March 31, 2019	-	-	-	-	-	(2,932)	-	-	(2,932)	(2,932)
Comprehensive income for the three months ended March 31, 2019	-	-	-	-	(16,596)	(2,932)	-	-	(2,932)	(19,528)
Share-based payments transactions	18,800	(2,256)	-	-	-	-	-	(14,580)	(14,580)	1,964
Balance at March 31, 2019	\$ 543,590	24,744	51,494	45,440	18,684	(67,948)	(33,710)	(14,594)	(116,252)	567,700

See accompanying notes to consolidated financial statements.

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

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2019	2018
Cash flows from (used in) operating activities:		
Profit (loss) before tax	\$ (14,699)	3,689
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	3,422	906
Amortization expense	336	292
Expected credit loss (gain)/ Provision (reversal of provision) for bad debt expense	28	15
Interest expense	548	385
Interest income	(13)	(25)
Share-based payments transactions	1,964	(548)
Share of loss of associates and joint ventures accounted for using equity method	3,666	-
Total adjustments to reconcile profit (loss)	9,951	1,025
Changes in operating assets and liabilities:		
Acquisition of financial assets at fair value through profit or loss	(694)	(258)
Decrease (increase) in notes and accounts receivable	33,746	(5,866)
Increase in other receivables	175	(54)
Decrease (increase) in inventories	(73,650)	(50,151)
Decrease in prepayments	(3,286)	(5,351)
Decrease (increase) in other current assets	(593)	(427)
Increase in contract liabilities	(466)	-
Increase (decrease) in notes and accounts payable	88,443	64,248
Increase (decrease) in other payables	(8,478)	3,257
Decrease in provisions	(294)	(1,506)
Increase (decrease) in other operating liabilities	450	(2,505)
Total adjustments	45,304	2,412
Cash flows from generated from operations	30,605	6,101
Interest received	13	24
Interest paid	(550)	(326)
Income taxes refund (paid)	(6,868)	(180)
Net cash flows from (used in) operating activities	23,200	5,619
Cash flows from (used in) investing activities:		
Acquisition of property, plant and equipment	(170)	(543)
Decrease (increase) in refundable deposits	(219)	1,686
Acquisition of intangible assets	(700)	(1,013)
Prepayment for investments	-	(6,666)
Net cash flows from (used in) investing activities	(1,089)	(6,530)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	(13,448)	(2,462)
Payment of lease liabilities	(2,400)	-
Net cash flows from (used in) financing activities	(15,848)	(2,462)
Effect of exchange rate changes on cash and cash equivalents	(2,911)	1,295
Net increase (decrease) in cash and cash equivalents	3,352	(2,084)
Cash and cash equivalents at beginning of period	100,314	108,369
Cash and cash equivalents at end of period	\$ 103,666	106,285

See accompanying notes to consolidated financial statements.

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

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2019 and 2018

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

(1) Company history

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

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

These consolidated financial statements were authorized for issuance by the board of directors on May 8, 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, 2019.

<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.

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

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(c).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term and/or low-value item leases of office equipment.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

(Continued)

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

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

4) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$33,689 thousands of right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.72%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 35,143
Recognition exemption for:	
short-term leases	(233)
	\$ 34,910
Discounted using the incremental borrowing rate at January 1, 2019 (Lease liabilities recognized at January 1, 2019)	\$ 33,689

(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.

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

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.

On transition to IFRSIC 23, there is no significant impact on the tax liabilities and retain earning.

- (b) 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:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
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.

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

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

(4) Summary of significant accounting policies

(a) Statement of compliance

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2018. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2018.

(b) Basis of consolidation

List of subsidiaries in the consolidated financial statements:

Name of investor	Name of subsidiary	Principal activity	Shareholding			Note
			March 31, 2019	December 31, 2018	March 31, 2018	
The Company	Global Maritime Finance Co., Ltd (GMF)	Investment	100 %	100 %	100 %	(Note 1)
"	AG Neovo Technology. BV. (AG Neovo B.V)	Sale of LCD monitors	100 %	100 %	100 %	
"	AG Neovo Investment Co., Ltd (AG Ncovo Investment)	Investment	100 %	100 %	100 %	(Note 1)
AG Neovo Investment	AG Neovo Technology (Shanghai) Co., Ltd (AG Neovo Shanghai)	Sale of LCD monitors	100 %	100 %	100 %	"
GMF	AG Neovo International Ltd. (AG Neovo International)	Investment	100 %	100 %	100 %	"
GMF	AG Neovo Technology Corp. (AG Neovo USA)	Sale of LCD monitors and medical equipment	100 %	100 %	100 %	"

Note 1: A non-significant subsidiary, wherein its financial statements have not been reviewed.

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

(c) Lease (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

(Continued)

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the Group's estimate of purchase options; or
- there is a change of its assessment on whether it will exercise an extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of asset that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(Continued)

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

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(d) Income taxes

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

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

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

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

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

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In the preparation of the consolidated financial statements, the significant accounting assumptions, judgment and major sources of estimation uncertainty are consistent with note (5) of the annual consolidated financial statements for the year ended December 31, 2018.

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

(6) Explanation of significant accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2018. Please refer to Note 6 of the 2018 annual consolidated financial statements.

(a) Cash and cash equivalents

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Petty cash, checking accounts and demand deposits	\$ 100,270	96,931	102,892
Time deposits	<u>3,396</u>	<u>3,383</u>	<u>3,393</u>
	<u>\$ 103,666</u>	<u>100,314</u>	<u>106,285</u>

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

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

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Mandatorily measured at fair value through profit or loss			
Derivative instruments not used for hedging:			
Forward exchange contracts	\$ <u>694</u>	<u>-</u>	<u>258</u>

The Group holds derivative financial instruments to hedge certain foreign exchange risk the Group is exposed to, arising from its operating activities. The following derivative instruments, without the application of hedge accounting, were classified as mandatorily measured at fair value through profit or loss as follows:

	<u>March 31, 2019</u>		
	<u>Contract amount (in thousands)</u>	<u>Currency</u>	<u>Maturity date</u>
Financial assets:			
Forward exchange sold	EUR <u>2,168</u>	EUR to USD	2019.04.03~2019.05.24
	<u>March 31, 2018</u>		
	<u>Contract amount (in thousands)</u>	<u>Currency</u>	<u>Maturity date</u>
Financial assets:			
Forward exchange sold	EUR <u>2,797</u>	EUR to USD	2018.04.03~2018.05.15

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

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

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Equity investments at fair value through other comprehensive income:			
Common stock unlisted on domestic company-tBPC	\$ -	-	91,000
Preferred stock unlisted on foreign market-IRONYUN	-	-	33,974
	<u>\$ -</u>	<u>-</u>	<u>124,974</u>

- (i) The Group designated the investments shown above as equity securities at fair value through other comprehensive income, so these investments were classified as financial assets carried at cost-non-current.
- (ii) The Group's purchased newly issued shares of Taiwan Biophotonic Corporation (tBPC) and IRONYUN INCORPORATED (IRONYUN) in March 2018 and November 2017, amounting to \$6,666 and \$3,010, respectively. The investments were accounted for as non-current prepayments for investments since the Group has not yet to acquire the shares.
- (iii) Taiwan Biophotonic Corporation (tBPC) increased its capital through cash injection, wherein the Group participated and increased its investment amounting to \$31,527 in 2018. The percentage of equity ownership on the investment of the Group had increased to 26.3%; therefore, the Group had significant influence over it, and accounted it for using the equity method. Please refer to Note 6(f) for other related information.
- (iv) There were no disposals of strategic investments and transfers of any cumulative gain or loss within equity relating to these investments in the three months ended March 31, 2018. These investments were classified as financial assets at fair value through other comprehensive income on December 31, 2018, please refer to Note 6(b) of the 2018 annual consolidated financial statements for other related information.
- (v) As of March 31, 2018, the Group did not provide any of the aforementioned financial assets as collaterals for its loans.
- (vi) For credit risk and market risk; please refer to note 6(v).

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

(d) Notes and accounts receivable

	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Notes receivable from operating activities	\$ 194	52	256
Accounts receivable	<u>64,647</u>	<u>98,535</u>	<u>91,930</u>
	64,841	98,587	92,186
Less: Loss allowance	<u>(55)</u>	<u>(27)</u>	<u>(66)</u>
	<u>\$ 64,786</u>	<u>98,560</u>	<u>92,120</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. 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 was determined as follows:

	<u>March 31, 2019</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 50,264	0%	-
1 to 30 days past due	12,608	0.18%	23
31 to 90 days past due	1,967	1.53%	30
91 to 180 days past due	<u>2</u>	100%	<u>2</u>
	<u>\$ 64,841</u>		<u>55</u>
	<u>December 31, 2018</u>		
	<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>\$ 98,587</u>		<u>27</u>
	<u>March 31, 2018</u>		
	<u>Gross carrying amount</u>	<u>Weighted- average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 73,878	0.01%	9
1 to 30 days past due	16,043	0.11%	18
31 to 90 days past due	<u>2,265</u>	1.72%	<u>39</u>
	<u>\$ 92,186</u>		<u>66</u>

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

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

	For the three months ended March 31,	
	2019	2018
The beginning of period	\$ 27	51
Impairment losses recognized	28	15
The end of period	<u>\$ 55</u>	<u>66</u>

As of March 31, 2019, December 31 and March 31, 2018, the Group did not provide any of the aforementioned notes and accounts receivable as collaterals for its loans.

(e) Inventories

	March 31, 2019	December 31, 2018	March 31, 2018
Merchandise inventories	<u>\$ 278,732</u>	<u>205,082</u>	<u>261,066</u>

The details of cost of sales for the three months ended March 31, 2019 and 2018, were as follows:

	For the three months ended March 31,	
	2019	2018
Cost of goods sold and expenses	\$ 94,054	125,993
Inventory valuation loss and obsolescence (reversed)	294	(842)
	<u>\$ 94,348</u>	<u>125,151</u>

For the three months ended March 31, 2019, the write-down of inventories to net realizable value amounted to \$294. For the three months ended March 31, 2018, the Group reversed allowance for inventory valuation loss and obsolescence amounting to \$842.

As of March 31, 2019, December 31 and March 31, 2018, the Group did not provide any inventories as collaterals for its loans.

(f) Investments accounted for using equity method

The components of investments accounted for using the equity method at the reporting date were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Associates	<u>\$ 111,433</u>	<u>115,099</u>	<u>-</u>

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

(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.

Details of the material associate is as follows:

Name of Associate	Nature of the relationship with the Group	Main operating location/ Registered Country of the Company	Proportion of shareholding and voting rights		
			March 31, 2019	December 31, 2018	March 31, 2018
Taiwan Biophotonic Corporation (tBPC)	Shareholder with significant influence	Taiwan	26.30 %	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

	March 31, 2019	December 31, 2018
Current assets	\$ 33,556	46,587
Non-current assets	79,565	64,141
Current liabilities	(4,272)	(6,247)
Non-current liabilities	(15,829)	-
Net assets	<u>\$ 93,020</u>	<u>104,481</u>
Notes assets attributable to owners of the associate	<u>\$ 93,020</u>	<u>104,481</u>
		For the three months ended March 31, 2019
Operating revenue		<u>\$ 387</u>
Loss from continuing operations (equal to comprehensive loss)		<u>\$ (11,461)</u>
Total comprehensive loss attributable to owners of the associate		<u>\$ (11,461)</u>

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

	<u>March 31, 2019</u>
Share of net assets of the associate to the Group at the acquisition date	\$ 27,365
Comprehensive loss attributable to the Group	<u>(2,991)</u>
Share of net assets of the associate as of December 31, 2018	24,374
Additional fair value adjustments of patented technology	46,319
Additional goodwill	<u>40,740</u>
Carrying amounts of the investment	<u>\$ 111,433</u>

(ii) Pledges

As of March 31, 2019 and 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

	<u>Land</u>	<u>Buildings and building improvement</u>	<u>Machinery and R&D equipment</u>	<u>Molding equipment and other equipment</u>	<u>Total</u>
Carrying amounts:					
Balance on January 1, 2019	\$ <u>95,104</u>	<u>24,235</u>	<u>921</u>	<u>2,585</u>	<u>122,845</u>
Balance on March 31, 2019	\$ <u>95,104</u>	<u>23,981</u>	<u>815</u>	<u>2,459</u>	<u>122,359</u>
Balance on January 1, 2018	\$ <u>95,104</u>	<u>24,745</u>	<u>1,452</u>	<u>2,599</u>	<u>123,900</u>
Balance on March 31, 2018	\$ <u>95,104</u>	<u>24,995</u>	<u>1,331</u>	<u>2,411</u>	<u>123,841</u>

There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property in the three months ended March 31, 2019 and 2018. Information on depreciation for the periods is disclosed in Note 12(a). Please refer to Note 6(g) of the 2018 annual consolidated financial statements for other related information.

As of March 31, 2019, December 31 and March 31, 2018, the property, plant and equipment has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

(h) Right-of-use assets

The Group leases many assets including buildings and transportation. Information about leases for which the Group as a lessee is presented below:

	<u>Buildings</u>	<u>Transportation</u>	<u>Total</u>
Cost:			
Balance on January 1, 2019	\$ -	-	-
Effects of retrospective application	<u>22,927</u>	<u>10,762</u>	<u>33,689</u>
Balance at January 1, 2019 after adjustment	22,927	10,762	33,689
Effect of change in foreign exchange rates	<u>(248)</u>	<u>(180)</u>	<u>(428)</u>
Balance on March 31, 2019	<u>\$ 22,679</u>	<u>10,582</u>	<u>33,261</u>

(Continued)

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	<u>Buildings</u>	<u>Transportation</u>	<u>Total</u>
Accumulated depreciation and impairment losses:			
Balance on January 1, 2019	\$ -	-	-
Depreciation for the period	1,543	946	2,489
Effect of change in foreign exchange rates	(10)	(11)	(21)
Balance on March 31, 2019	<u>\$ 1,533</u>	<u>935</u>	<u>2,468</u>
Carrying amounts:			
Balance at March 31, 2019	<u>\$ 21,146</u>	<u>9,647</u>	<u>30,793</u>

The Group leases offices, office equipment and transportation under the finance lease in the three months ended March 31, 2018, please refer to note 6(n).

(i) Investments property

Details of the investments property is summarized as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Total</u>
Carrying amounts:			
Balance on January 1, 2019	<u>\$ 111,400</u>	<u>53,433</u>	<u>164,833</u>
Balance on March 31, 2019	<u>\$ 111,400</u>	<u>53,137</u>	<u>164,537</u>
Balance on January 1, 2018	<u>\$ 111,400</u>	<u>54,616</u>	<u>166,016</u>
Balance on March 31, 2018	<u>\$ 111,400</u>	<u>54,320</u>	<u>165,720</u>

There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the three months ended March 31, 2019 and 2018. Information on depreciation for the periods is disclosed in Note 12(a). Please refer to Note 6(h) of the 2018 annual consolidated financial statements for other related information.

The fair value of the investment property was not significantly different from those disclosed in Note 6(h) of the consolidated financial statements for the year ended December 31, 2018.

As of March 31, 2019, December 31 and March 31, 2018, the investment property has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(j) Intangible Assets

	Computer software and others
Carrying amounts:	
Balance on January 1, 2019	\$ <u>3,470</u>
Balance on March 31, 2019	\$ <u>3,834</u>
Balance on January 1, 2018	\$ <u>2,274</u>
Balance on March 31, 2018	\$ <u>2,995</u>

There were no significant additions, disposal, or recognition and reversal of impairment losses of intangible assets for the three months ended March 31, 2019 and 2018. Information on amortization for the periods is disclosed in Note 12(a). Please refer to Note 6(i) of the 2018 annual consolidated financial statements for other related information.

As of March 31, 2019, December 31 and March 31, 2018, the Group did not provide any intangible assets as collaterals for its loans.

(k) Short-term borrowings

	March 31, 2019	December 31, 2018	March 31, 2018
Unsecured bank loans	\$ 20,000	33,448	25,000
Secured bank loans	<u>84,000</u>	<u>84,000</u>	<u>60,837</u>
Total	<u>\$ 104,000</u>	<u>117,448</u>	<u>85,837</u>
Unused credit lines for short-term borrowings	<u>\$ 336,444</u>	<u>331,552</u>	<u>346,940</u>
Annual interest rates	<u>1.72%~1.78%</u>	<u>1.10%~3.34%</u>	<u>1.74%~2.76%</u>

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

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

(l) Provisions

There were no significant changes in provisions in the three months ended March 31, 2019 and 2018. Please refer to Note 6(k) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(m) Lease liabilities

	March 31, 2019		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 9,340	460	8,880
Between one and two years	8,728	309	8,419
Between two and five years	13,924	341	13,583
	\$ 31,992	1,110	30,882
Current	\$ 9,340	460	8,880
Non-current	\$ 22,652	650	22,002

The amounts recognized in profit or loss were as follows:

	For the three months ended March 31, 2019
Interest on lease liabilities	\$ 93
Expenses relating to short-term leases	\$ 338

The amounts recognized in the statement of cash flows for the Group was as follows:

	For the three months ended March 31, 2019
Total cash outflow for leases	\$ 2,831

(i) Real estate lease

The Group leases buildings for its office space. The leases of office space typically run for three to seven years.

(ii) Other leases

The Group leases transportation, with lease terms of two to five years.

These leases are short-term and/or leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

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

(n) Operating lease

(i) The Group as lessee

Non-cancellable operating lease rentals payable were as follows:

	December 31, 2018	March 31, 2018
Less than one year	\$ 9,854	8,892
Between one and five years	24,487	22,520
Over than five years	802	-
	\$ 35,143	31,412

(ii) The Group as lessor

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

	December 31, 2018	March 31, 2018
Less than one year	\$ 4,044	4,044
Between one and five years	8,914	11,947
	\$ 12,958	15,991

(o) 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.

Overseas subsidiaries recognized the pension expenses and made the periodical payments under the defined contribution method by local laws.

The expense recognized in profit or loss for the Group were as follows:

	For the three months ended March 31,	
	2019	2018
Selling expenses	\$ 421	244
Administrative expenses	393	324
Research and development expenses	189	138
	\$ 1,003	706

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

(p) Income taxes

(i) Income tax expenses

The amount of income tax for the three months ended March 31, 2019 and 2018 was as follows:

Tax expenses	For the three months ended March 31,	
	2019	2018
	\$ 1,897	918

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

(q) Capital and other equities

Except for the following disclosure, there was no significant change for capital and other equity for the periods from January 1 to March 31, 2019 and 2018. For the related information, please refer to note 6(o) of the consolidated financial statements for the year ended December 31, 2018.

(i) Capital surplus

The balances of capital surplus were as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Additional paid-in capital	\$ 20,986	20,986	20,986
Restricted employee shares	(2,265)	(9)	530
Employee stock options	5,343	5,343	4,779
Donation from shareholders	680	680	-
	\$ 24,744	27,000	26,295

(ii) Retained Earnings

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

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

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

Based on the resolutions made during the directors' meeting held on March 20, 2019, and the resolution made during the annual stockholders' meeting held on June 13, 2018, respectively, the loss on the appropriation of dividends in 2018 and 2017 need not to be allocated.

(r) Share-based payment

Except for the following disclosure, there were no significant changes for share-based payment during the periods from January 1 to March 31, 2019 and 2018. For the related information, please refer to note 6(p) of the consolidated financial statements for the years ended December 31, 2018.

The stockholders' meeting on June 13, 2018, the Company decided to award 2,000 thousand shares of employee restricted shares to the Company's full-time employees who meet the certain requirements. The restricted shares have been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission. At the directors' meeting held on November 7, 2018, the Board of Directors decided to issue the first restricted shares of 1,880 thousand shares, and the effective date of the share issuance was on January 14, 2019.

1,880 thousand shares of the aforementioned restricted shares were issued without consideration. 20%, 20%, 30%, and 30% of the restricted shares were vested 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 was as follows:

	Unit: in thousand shares	
	2019	2018
Outstanding units at January 1	8	334
Granted during the period	1,880	-
Outstanding at March 31	1,888	334

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

(s) Earnings per share

Basic earnings per share and diluted earnings per share for the three months ended March 31, 2019 and 2018, was computed as follows:

	For the three months ended March 31,	
	2019	2018
Basic earnings per share:		
Net income (loss)	\$ <u>(16,596)</u>	<u>2,771</u>
Weighted-average number of shares outstanding (thousands)	<u>52,471</u>	<u>52,471</u>
Basic earnings per share (dollars)	\$ <u>(0.32)</u>	<u>0.05</u>
Diluted earnings per share:		
Weighted-average number of shares outstanding (thousands)		52,471
Effect of restricted employee shares unvested		<u>266</u>
Weighted-average number of shares outstanding (thousand)		<u>52,737</u>
Diluted earnings per share (dollars)		\$ <u>0.05</u>

The employee stock options have an anti-dilutive effect; hence, they were not include in the weighted-average number of shares (diluted). The Company has no diluted earnings per share for the three months ended March 31, 2019.

(t) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended March 31,	
	2019	2018
Primary geographical markets		
Netherland	\$ 18,913	54,689
Germany	39,942	34,869
United States	9,460	8,887
Other	<u>73,456</u>	<u>84,914</u>
	<u>\$ 141,771</u>	<u>183,359</u>

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

	For the three months ended March 31,	
	2019	2018
Major products / services lines		
LED monitors	\$ 136,675	178,058
Medical equipment	1,695	2,048
Other accessories	2,390	2,242
Rental revenue	1,011	1,011
	\$ 141,771	183,359

(ii) Contract balance

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

	March 31, 2019	December 31, 2018	March 31, 2018
Contract liability (Unearned sales revenue)	\$ 198	664	45

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

(u) 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.

The Company had loss before income tax for the three months ended March 31, 2019. Despite the Company had profit before income tax for the three months ended March 31, 2018, yet the Company had accumulated deficits thus, no remuneration to employees, directors and supervisors was recognized.

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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. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions. Related information would be available at the Market Observation Post System website.

(v) Financial Instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(t) of the consolidated financial statements for the year ended December 31, 2018.

(i) Credit risk of receivables

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

Other financial assets at amortized cost including 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.

(ii) Liquidity Risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
March 31, 2019				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 104,000	(104,000)	(104,000)	-
Notes and accounts payable	131,295	(131,295)	(131,295)	-
Lease liabilities (including current and non-current)	30,882	(31,992)	(9,340)	(22,652)
Other payables	58,799	(58,799)	(58,799)	-
Guarantee deposits	945	(945)	-	(945)
	<u>\$ 325,921</u>	<u>(327,031)</u>	<u>(303,434)</u>	<u>(23,597)</u>
December 31, 2018				
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	945	(945)	-	(945)
	<u>\$ 220,430</u>	<u>(220,430)</u>	<u>(219,485)</u>	<u>(945)</u>

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
March 31, 2018				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 85,837	(85,837)	(85,837)	-
Notes and accounts payable	130,929	(130,929)	(130,929)	-
Other payables	61,388	(61,388)	(61,388)	-
Guarantee deposits	945	(945)	-	(945)
	<u>\$ 279,099</u>	<u>(279,099)</u>	<u>(278,154)</u>	<u>(945)</u>

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

(iii) Market risk

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

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

	<u>March 31, 2019</u>			<u>December 31, 2018</u>			<u>March 31, 2018</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
Financial assets									
Monetary items									
USD	\$ 504	USD/NTD =30.82	15,522	1,470	USD/NTD =30.715	45,161	450	USD/NTD =29.105	13,092
USD	28	USD/EUR =1.1230	876	25	USD/EUR =1.1460	764	4	USD/EUR =1.2324	128
Financial liabilities									
Monetary items									
USD	2,295	USD/NTD =30.82	70,724	703	USD/NTD =30.715	21,599	3,734	USD/NTD =29.105	108,692
USD	366	USD/EUR =1.1230	11,275	-	USD/EUR =1.1460	-	108	USD/EUR =1.2324	3,149

2) Sensitivity analysis

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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A weakening (strengthening) 5% of each foreign currency against the functional currency on March 31, 2019 and 2018 would have affected the net profit before tax as follows:

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
USD (against the NTD)		
Appreciate 5%	\$ (2,760)	(4,780)
Depreciate 5%	2,760	4,780
USD (against the EUR)		
Appreciate 5%	(520)	(151)
Depreciate 5%	520	151

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

3) Foreign exchange gain and loss on monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount for disclosure. For the three months ended March 31, 2019 and 2018, the foreign exchange gains (losses), including realized and unrealized, amounted to \$(658) and \$(319), respectively.

(iv) Interest rate analysis

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

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

If the interest rate had increased or decreased by 0.25%, the net loss before tax would have increased or decreased by \$13 for the three months ended March 31, 2019, and the net profit before tax would have decreased or increased by \$7 for the three months ended March 31, 2018, 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

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

The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and lease liabilities, disclosure of fair value information is not required :

	March 31, 2019				Total
	Book value	Fair Value			
		Level 1	Level 2	Level 3	
Mandatorily measured at fair value through profit or loss					
Derivative financial assets	\$ 694	-	694	-	694
Financial assets measured at amortized cost					
Cash and cash equivalents	103,666	-	-	-	-
Notes and accounts receivable	64,786	-	-	-	-
Other receivables	244	-	-	-	-
Restricted bank deposits (recognized as other current assets)	129	-	-	-	-
	<u>168,825</u>				
	<u>\$ 169,519</u>				
Financial liabilities measured at amortized cost					
Short-term borrowing	104,000	-	-	-	-
Notes and accounts payable	131,295	-	-	-	-
Lease liabilities	30,882				
Other payables	58,799	-	-	-	-
Guaranteed deposits	945				
	<u>\$ 325,921</u>				

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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		December 31, 2018			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:					
Cash and cash equivalents	\$ 100,314	-	-	-	-
Notes and accounts receivable	98,560	-	-	-	-
Other receivables	419	-	-	-	-
Restricted bank deposits (recognized as other current assets)	129	-	-	-	-
	<u>\$ 199,422</u>				
Financial liabilities at amortized cost					
Short-term borrowing	\$ 117,448	-	-	-	-
Notes and accounts payable	42,852	-	-	-	-
Other payables	59,185	-	-	-	-
Guaranteed deposits	945	-	-	-	-
	<u>\$ 220,430</u>				
		March 31, 2018			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:					
Derivative financial assets	\$ 258	-	258	-	258
Financial assets at fair value through other comprehensive income					
Unquoted equity instruments	124,974	-	-	124,974	124,974
Loans and receivables					
Cash and cash equivalents	106,285	-	-	-	-
Notes and accounts receivable	92,120	-	-	-	-
Other receivables	461	-	-	-	-
Restricted bank deposits (recognized as other current assets)	151	-	-	-	-
Subtotal	199,017				
	<u>\$ 324,249</u>				
Financial liabilities at amortized cost					
Short-term borrowing	\$ 85,837	-	-	-	-
Notes and accounts payable	130,929	-	-	-	-
Other payables	61,388	-	-	-	-
Guaranteed deposits	945	-	-	-	-
Total	<u>\$ 279,099</u>				

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

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 in the three months ended March 31, 2019 and 2018.

5) Reconciliation of level 3 fair values

	Unquoted equity instruments
Balance on January 1, 2018 (Same balance as of March 31, 2018)	\$ <u><u>124,974</u></u>

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

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

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income—equity instruments without an active market (Common stock)	Discounted Cash Flow Method	<ul style="list-style-type: none"> ·Weighted Average Cost of Capital (WACC) as of March 31, 2018 was 16.88% ·Lack of market liquidity discount as of March 31, 2018 was 20% 	·The higher the WACC and lack-of market liquidity are, the lower the fair value will be.
Financial assets at fair value through other comprehensive income -equity instruments without an active market (Preferred stock)	Income Approach – perpetual annuity	<ul style="list-style-type: none"> ·Weighted Average Cost of Capital (WACC) as of March 31,2018 was 4.21% ·Expected rate on return for preferred stock as of March 31, 2018 was 3% 	·The higher the WACC and the Expected rate on return are, the lower the fair value will be.

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

For fair value measurements in Level 3, if change one or more of the evaluation parameters, the other comprehensive income would have the following effects:

	<u>Input</u>	<u>Change</u>	<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>
March 31, 2019				
Financial assets at fair value through other comprehensive income				
Equity instruments without an active market (Common stock)	WACC	1%	4,250	(4,250)
	Lack-of-market liquidity discount	10%	11,250	(11,250)
Equity instruments without an active market (Preferred stock)	WACC	1%	4,018	(4,018)
	Expected rate on return for preferred stock	1%	4,018	(4,018)

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

(w) **Financial risk management**

There were no significant changes in the Group's financial risk management and policies as disclosed in note 6 (u) of the consolidated financial statements for the year ended December 31, 2018.

(x) **Capital management**

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2018. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2018. Please refer to Note 6(v) of the consolidated financial statements for the year ended December 31, 2018 for further details.

(y) **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 in the three months ended March 31, 2019 and 2018: the acquisition of right-of-use assets by lease, please refer to note 6(h).

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

	January 1, 2019	Cash flows	Non-cash changes Foreign exchange movement	March 31, 2019
Short-term borrowings	\$ 117,448	(13,448)	-	104,000
Lease liabilities	33,689	(2,400)	(407)	30,882
Total liabilities from financing activities borrowings	<u>\$ 151,137</u>	<u>(15,848)</u>	<u>(407)</u>	<u>134,882</u>
	January 1, 2018	Cash flows	March 31, 2018	
Short-term borrowings	<u>\$ 88,299</u>	<u>(2,462)</u>	<u>85,837</u>	

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

Key management personnel compensation

Key management personnel compensation comprised:

	For the three months ended March 31,	
	2019	2018
Short-term employee benefits	\$ 4,495	2,690
Post-employment benefits	54	54
	<u>\$ 4,549</u>	<u>2,744</u>

(8) Pledged assets:

The carrying amounts of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2018</u>
Land and buildings	Guarantee for short-term loans and the credit line	\$ 116,297	116,418	116,781
Investment property	Guarantee for short-term loans and the credit line	164,537	164,833	165,720
Restricted bank deposits	Warranty guarantee	129	129	151
		<u>\$ 280,963</u>	<u>281,380</u>	<u>282,652</u>

(9) Commitments and contingencies:

As of March 31, 2019, December 31 and March 31, 2018, the unused balance of the Group's letters of credit amounted to \$8,556, \$0 and \$3,223, respectively.

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

Based on the resolution of the Board of Directors Meeting held on May 8, 2019, the Company decided to repurchase the Company's shares from Taiwan Stock Exchange in order to transfer to employees. The expected purchase is 1,500 shares and limited on the repurchased amount of \$20,445. The price range is from \$6.26 to \$13.63 per share.

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

(12) Other:

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

By item	By function	For the three months ended March 31,					
		2019			2018		
		Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits							
Salary		-	28,069	28,069	-	24,887	24,887
Labor and health insurance		-	3,776	3,776	-	3,128	3,128
Pension		-	1,003	1,003	-	706	706
Others		-	1,144	1,144	-	914	914
Depreciation		296	3,126	3,422	296	610	906
Amortization		107	229	336	178	114	292

Note: The depreciation for the three months ended March 31, 2019 and 2018 included the depreciation of investment property both amounted to \$296.

- (b) Seasonality of operations

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

(13) Other disclosures:

- (a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for the three months ended March 31, 2019:

- (i) Loans to other parties: None.
(ii) Guarantees and endorsements for other parties:

(In Thousands of New Taiwan Dollars and foreign currencies)

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	567,700	150,000	150,000	3,232	-	26.42 %	567,700	Yes	No	No
0	"	AG Neovo USA	"	567,700	30,000	30,000	-	-	5.28 %	567,700	Yes	No	No

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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- (iii) Securities held as of March 31, 2019 (excluding the investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	IRONYUN INCORPORATED	-	Financial assets measured at fair value through other comprehensive income	6,025	-	5.92 %	-	

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

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
- (ix) Trading in derivative instruments: Please refer to note 6(b).
- (x) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company name	Counter party	Relationship (Note 2)	Intercompany transactions			Percentage of the consolidated net revenue or total assets
				Accounts name	Amount	Terms	
0	The Company	AG Neovo B.V	1	Operating revenue	88,724	The price is marked up based on the operating cost, and the receivables depend on the funding demand with in the credit period.	62.58 %
0	"	"	1	Unearned sales revenue	82,806	"	9.21 %
0	"	AG Neovo USA	1	Operating revenue	2,383	"	1.68 %
0	"	"	1	Unearned sales revenue	4,294	"	0.48 %

Note 1: The numbers filled in as follows:

- 1.0 represents the Company.
2. Subsidiaries are sorted in a numerical order starting from 1.

Note 2: Relationship with the transactions labeled as follows:

- 1 represents the transactions from the parent company to its subsidiaries.
- 2 represents the transactions between the subsidiaries and the parent company.
- 3 represents the transactions between subsidiaries.

(Continued)

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

(b) Information on investees:

The following is the information on investees for the three months ended March 31, 2018 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars and foreign currencies)

Name of Investor	Name of investee	Location	Main businesses and products	Original investment amount		Ending Balance as of March 31, 2019			Net Income (losses) of Investee (Note2)	Share of profits /losses of Investee (Note1)	Note
				March 31, 2019 (Note 1)	December 31, 2018 (Note 1)	Shares	Percentage of ownership	Carrying value (Note 1)			
The Company	GMF	British Virgin Islands	Investment	313,522	313,522	0.7	100 %	20,493	(2,702)	(2,702)	Note 3
"	AG Neovo B.V	Netherlands	Sales LCD monitors	187,013	187,013	4.8	100 %	192,394	(4,628)	(4,628)	"
"	AG Neovo Investment	British Virgin Islands	Investment	14,796	14,796	0.5	100 %	12,412	(997)	(997)	"
"	Taiwan Biophotonic Corporation	Taiwan	Manufacturing and sale of medical equipment	81,527	81,527	3,153	26 %	111,433	(11,461)	(3,666)	"
GMF	AG Neovo International	British Virgin Islands	Investment	14,794 (US\$ 480)	14,794 (US\$ 480)	0.01	100 %	7 (US\$ -)	- (US\$ -)	Recognized by shareholding percentage by GMF	Note 3
"	AG Neovo USA	U.S.A.	Sales LCD monitors and medical equipment	61,640 (US\$ 2,000)	61,640 (US\$ 2,000)	701	100 %	18,699 (US\$ 607)	(2,860) (US\$ (93))		"

Note1: The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.82 at reporting date.

Note2: The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.8233 based on the average exchange rate at reporting date.

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 foreign currencies)

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, 2018 (Note 2)	Investment flows		Accumulated outflow of investment from Taiwan as of March 31, 2019 (Note 2)	Net income (losses) of the investee (Note 3)	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
AG Neovo (Shanghai)	Sales LCD monitors	13,410 (US\$500)	Note 1	13,410 (US\$500)	-	-	13,410 (US\$500)	(1,036) (US\$34)	100%	(1,036) (US\$34)	13,010 (US\$422)	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of March 31, 2019 (Notes 2 and 4)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 2 and 4)	Upper Limit on Investment
124,390 (US\$4,036)	124,390 (US\$4,036)	340,620

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 USD30.82 at reporting date.

Note 3: The amounts in New Taiwan Dollars were translated at the exchange rates of USD30.8233 based on the average exchange rate at reporting date.

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

(iii) Significant transactions: None.

(Continued)

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(14) Segment information:

	For the three months ended March 31, 2019					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	\$ 126,026	10,063	4,760	922	-	141,771
Revenue from segments	<u>306</u>	<u>172</u>	<u>91,107</u>	<u>-</u>	<u>(91,585)</u>	<u>-</u>
	<u>\$ 126,332</u>	<u>10,235</u>	<u>95,867</u>	<u>922</u>	<u>(91,585)</u>	<u>141,771</u>
Reportable segment profit (loss)	<u>\$ (2,731)</u>	<u>(2,702)</u>	<u>(16,596)</u>	<u>(997)</u>	<u>8,327</u>	<u>(14,699)</u>
	For the three months ended March 31, 2018					
	Europe	America	Taiwan	Others	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	\$ 162,360	9,719	5,230	6,050	-	183,359
Revenue from segments	<u>779</u>	<u>593</u>	<u>99,858</u>	<u>202</u>	<u>(101,432)</u>	<u>-</u>
	<u>\$ 163,139</u>	<u>10,312</u>	<u>105,088</u>	<u>6,252</u>	<u>(101,432)</u>	<u>183,359</u>
Reportable segment profit (loss)	<u>\$ 3,503</u>	<u>(997)</u>	<u>2,771</u>	<u>31</u>	<u>(1,619)</u>	<u>3,689</u>