

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**With Independent Auditors' Review Report  
for the Nine Months Ended September 30, 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 September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2019 and 2018, as well as the changes in equity and cash flows for the nine months ended September 30, 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 \$39,757 thousand and \$34,938 thousand, constituting 4.71% and 3.90% of consolidated total assets; and the total liabilities amounting to \$8,108 thousand and \$3,803 thousand, constituting 2.54% and 1.38% of consolidated total liabilities as of September 30, 2019 and 2018, respectively; as well as the total comprehensive income (loss) amounting to \$(4,209) thousand, \$(1,647) thousand, \$(12,161) thousand and \$(4,706) thousand, constituting 23.45%, 25.94%, 27.30% and 42.85% of the absolute value of consolidated total comprehensive income (loss) for the three months and the nine months ended September 30, 2019 and 2018, respectively.

Furthermore, as stated in Note 6(f), the other equity accounted investments of the Group in its investee companies of \$107,663 thousand and \$119,751 thousand as of September 30, 2019 and 2018, respectively, and its equity in net earnings on the investee companies amounting to \$(384) thousand, \$(3,890) thousand \$(7,436) thousand and \$(5,226) thousand for the three months and nine months ended September 30, 2019 and 2018, respectively, were 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 September 30, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three months and nine months ended September 30, 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)  
November 6, 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 September 30, 2019 and 2018**

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

**Consolidated Balance Sheets**

**September 30, 2019, December 31, 2018, and September 30, 2018**

(Expressed in Thousands of New Taiwan Dollars)

Assets		September 30, 2019		December 31, 2018		September 30, 2018		Liabilities		September 30, 2019		December 31, 2018		September 30, 2018	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
<b>Current assets:</b>								<b>Current liabilities:</b>							
1100	Cash and cash equivalents (note 6(a))	\$ 55,372	7	100,314	12	72,268	8	2100	Short-term borrowings (note 6(k))	\$ 189,593	23	117,448	15	141,418	16
1110	Current financial assets at fair value through profit or loss (note 6(b))	401	-	-	-	127	-	2120	Current financial liabilities at fair value through profit or loss (note 6(b))	-	-	-	-	259	-
1170	Notes and accounts receivable, net (note 6(d))	66,127	8	98,560	12	88,319	10	2130	Current contract liabilities (note 6(t))	77	-	664	-	48	-
1200	Other receivables	51	-	419	-	138	-	2170	Notes and accounts payable	33,815	4	42,852	5	66,063	8
1300	Inventories, net (note 6(e))	281,822	33	205,082	25	277,303	31	2200	Other payables	66,236	8	65,979	8	62,206	7
1410	Prepayments	16,671	2	5,431	1	6,769	1	2250	Current provisions (note 6(l))	2,362	-	2,413	-	1,584	-
1470	Other current assets (note 8)	802	-	1,173	-	1,738	-	2280	Current lease liabilities (note 6(m))	8,744	1	-	-	-	-
		<u>421,246</u>	<u>50</u>	<u>410,979</u>	<u>50</u>	<u>446,662</u>	<u>50</u>	2300	Other current liabilities	<u>1,700</u>	<u>-</u>	<u>2,343</u>	<u>-</u>	<u>2,163</u>	<u>-</u>
										<u>302,527</u>	<u>36</u>	<u>231,699</u>	<u>28</u>	<u>273,741</u>	<u>31</u>
<b>Non-current assets:</b>								<b>Non-current liabilities:</b>							
1517	Non-current financial assets at fair value through other comprehensive income (note 6(c))	-	-	-	-	33,974	4	2580	Non-current lease liabilities (note 6(m))	17,261	2	-	-	-	-
1550	Investments accounted for using equity method (note 6(f))	107,663	13	115,099	14	119,751	13	2600	Other non-current liabilities	-	-	945	-	945	-
1600	Property, plant and equipment (notes 6(g) and 8)	121,179	14	122,845	15	123,196	14			<u>17,261</u>	<u>2</u>	<u>945</u>	<u>-</u>	<u>945</u>	<u>-</u>
1755	Right-of-use assets (note 6(h))	25,709	3	-	-	-	-	<b>Total liabilities</b>		<u>319,788</u>	<u>38</u>	<u>232,644</u>	<u>28</u>	<u>274,686</u>	<u>31</u>
1760	Investment property, net (notes 6(i) and 8)	163,945	20	164,833	20	165,128	19	<b>Equity attributable to owners of parent: (notes 6(q) and (r))</b>							
1780	Intangible assets, net (note 6(j))	3,920	-	3,470	1	3,246	-	3110	Common stock	<u>543,590</u>	<u>64</u>	<u>524,790</u>	<u>64</u>	<u>528,048</u>	<u>59</u>
1900	Other non-current assets	891	-	682	-	689	-	3200	Capital surplus	<u>25,323</u>	<u>3</u>	<u>27,000</u>	<u>4</u>	<u>27,350</u>	<u>3</u>
1960	Non-current prepayments for investments (note 6(c))	-	-	-	-	3,010	-		Retained earnings:						
		<u>423,307</u>	<u>50</u>	<u>406,929</u>	<u>50</u>	<u>448,994</u>	<u>50</u>	3310	Legal reserve	52,704	6	51,494	6	51,494	6
								3320	Special reserve	79,510	9	45,440	6	45,440	5
								3350	Unappropriated retained earnings (accumulated deficits)	<u>(37,694)</u>	<u>(4)</u>	<u>35,280</u>	<u>4</u>	<u>32,140</u>	<u>3</u>
										<u>94,520</u>	<u>11</u>	<u>132,214</u>	<u>16</u>	<u>129,074</u>	<u>14</u>
								3400	Other equity interest	<u>(116,248)</u>	<u>(14)</u>	<u>(98,740)</u>	<u>(12)</u>	<u>(63,502)</u>	<u>(7)</u>
								3500	Treasury shares (note 6(q))	<u>(22,420)</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
										<u>524,765</u>	<u>62</u>	<u>585,264</u>	<u>72</u>	<u>620,970</u>	<u>69</u>
								<b>Total equity</b>		<u>524,765</u>	<u>62</u>	<u>585,264</u>	<u>72</u>	<u>620,970</u>	<u>69</u>
<b>Total assets</b>		<u>\$ 844,553</u>	<u>100</u>	<u>817,908</u>	<u>100</u>	<u>895,656</u>	<u>100</u>	<b>Total liabilities and equity</b>		<u>\$ 844,553</u>	<u>100</u>	<u>817,908</u>	<u>100</u>	<u>895,656</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 and nine months ended September 30, 2019 and 2018**

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

	For the three months ended September 30				For the nine months ended September 30				
	2019		2018		2019		2018		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	<b>Operating revenues, net (note 6(t)):</b>								
4110	\$	142,245	99	182,356	99	431,433	99	541,982	100
4310		1,191	1	1,011	1	3,213	1	3,033	-
		143,436	100	183,367	100	434,646	100	545,015	100
5000	<b>Cost of sales (notes 6(e) and 12)</b>								
5950		92,072	64	118,373	65	285,337	66	368,223	68
		51,364	36	64,994	35	149,309	34	176,792	32
	<b>Operating expenses (notes 6(o) and 12):</b>								
6100		36,445	24	38,425	21	107,231	25	106,901	20
6200		17,983	13	14,520	8	54,957	13	45,045	8
6300		3,340	2	4,081	2	10,751	2	11,506	2
		57,768	39	57,026	31	172,939	40	163,452	30
		(6,404)	(3)	7,968	4	(23,630)	(6)	13,340	2
	<b>Net operating income (loss)</b>								
	<b>Non-operating income and expenses:</b>								
7100		12	-	14	-	100	-	93	-
7190		147	-	3,613	2	266	-	3,970	1
7230		(2,095)	(2)	(50)	-	(1,535)	-	(2,885)	(1)
7235						2,270	1	3,847	1
7510		1,306	1	238	-				
7770		(973)	(1)	(550)	-	(2,173)	-	(1,425)	-
		(384)	-	(3,890)	(2)	(7,436)	(2)	(5,226)	(1)
		(1,987)	(2)	(625)	-	(8,508)	(1)	(1,626)	-
7900	<b>Profit (loss) before tax</b>								
7950		(8,391)	(5)	7,343	4	(32,138)	(7)	11,714	2
		1,383	1	909	-	5,556	1	2,758	-
		(9,774)	(6)	6,434	4	(37,694)	(8)	8,956	2
8300	<b>Other comprehensive income (loss):</b>								
8310	<b>Items that may not be reclassified subsequently to profit or loss:</b>								
8316								2,450	-
8360	<b>Items that may be reclassified subsequently to profit or loss:</b>								
8361		(8,173)	(6)	(84)	-	(6,858)	(2)	(423)	-
8300	<b>Other comprehensive income (loss), net</b>								
8500		(8,173)	(6)	(84)	-	(6,858)	(2)	2,027	-
		(17,947)	(12)	6,350	4	(44,552)	(10)	10,983	2
	<b>Earnings per share (note 6(s))</b>								
9750		(0.19)		0.12		(0.73)		0.17	
9850				0.12				0.17	

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2019 and 2018

(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	Treasury stock	
<b>Balance at January 1, 2018</b>	\$ 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 nine months ended September 30, 2018	-	-	-	-	8,956	-	-	-	-	-	8,956
Other comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	-	-	(423)	2,450	-	2,027	-	2,027
Comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	-	8,956	(423)	2,450	-	2,027	-	10,983
Other changes in capital surplus:											
Share-based payment transactions	-	563	-	-	-	-	-	(2,207)	(2,207)	-	(1,644)
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)	-	-
<b>Balance at September 30, 2018</b>	<b>\$ 528,048</b>	<b>27,350</b>	<b>51,494</b>	<b>45,440</b>	<b>32,140</b>	<b>(63,732)</b>	<b>3,274</b>	<b>(3,044)</b>	<b>(63,502)</b>	<b>-</b>	<b>620,970</b>
<b>Balance at January 1, 2019</b>	\$ 524,790	27,000	51,494	45,440	35,280	(65,016)	(33,710)	(14)	(98,740)	-	585,264
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	1,210	-	(1,210)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	34,070	(34,070)	-	-	-	-	-	-
Profit for the nine months ended September 30, 2019	-	-	-	-	(37,694)	-	-	-	-	-	(37,694)
Other comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	-	(6,858)	-	-	(6,858)	-	(6,858)
Comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	(37,694)	(6,858)	-	-	(6,858)	-	(44,552)
Other changes in capital surplus:											
Share-based payment transactions	18,800	(2,256)	-	-	-	-	-	(10,650)	(10,650)	-	5,894
Donation from shareholders	-	579	-	-	-	-	-	-	-	-	579
Increase in treasury stock	-	-	-	-	-	-	-	-	-	(22,420)	(22,420)
<b>Balance at September 30, 2019</b>	<b>\$ 543,590</b>	<b>25,323</b>	<b>52,704</b>	<b>79,510</b>	<b>(37,694)</b>	<b>(71,874)</b>	<b>(33,710)</b>	<b>(10,664)</b>	<b>(116,248)</b>	<b>(22,420)</b>	<b>524,765</b>

See accompanying notes to consolidated financial statements.

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**Reviewed only, not audited in accordance with generally accepted auditing standards**

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

**Consolidated Statements of Cash Flows**

**For the nine months ended September 30, 2019 and 2018**

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

	For the nine months ended September 30	
	2019	2018
<b>Cash flows from (used in) operating activities:</b>		
<b>Profit (loss) before tax</b>	\$ (32,138)	11,714
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	9,993	2,753
Amortization expense	950	1,189
Expected credit loss (gain)	24	(8)
Interest expense	2,173	1,425
Interest income	(100)	(93)
Share-based payments transactions	5,894	(1,644)
Share of loss of associates and joint ventures accounted for using equity method	7,436	5,226
<b>Total adjustments to reconcile profit (loss)</b>	26,370	8,848
<b>Changes in operating assets and liabilities:</b>		
Acquisition of financial assets at fair value through profit or loss	(401)	(127)
Decrease in notes and accounts receivable	32,409	(2,042)
Decrease (increase) in other receivables	368	268
Increase in inventories	(76,740)	(66,752)
Increase in prepayments	(4,605)	(706)
Increase in other current assets	371	(164)
Increase (decrease) in financial liabilities held for trading	-	259
Decrease in contract liabilities	(587)	(818)
Increase in notes and accounts payable	(9,037)	(618)
Decrease in other payables	(4,323)	(1,661)
Decrease in provisions	(58)	(2,538)
Decrease in other current liabilities	(643)	(1,140)
<b>Total changes in operating assets and liabilities</b>	(63,246)	(76,039)
<b>Total adjustments</b>	(36,876)	(67,191)
Cash flows used in generated from operations	(69,014)	(55,477)
Interest received	100	93
Interest paid	(2,183)	(1,368)
Income taxes paid	(7,601)	(79)
<b>Net cash flows used in operating activities</b>	(78,698)	(56,831)
<b>Cash flows from (used in) investing activities:</b>		
Proceeds from disposal of investments accounted for using equity method	-	(31,527)
Acquisition of property, plant and equipment	(243)	(800)
Decrease (increase) in refundable deposits	(209)	1,825
Acquisition of intangible assets	(1,400)	(2,161)
<b>Net cash flows used in investing activities</b>	(1,852)	(32,663)
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term borrowings	72,145	53,119
Decrease in guarantee deposits received	(945)	-
Payment of lease liabilities	(6,932)	-
Cost of increase in treasury stock	(22,420)	-
Other financing activities	579	680
<b>Net cash flows from financing activities</b>	42,427	53,799
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(6,819)	(406)
<b>Net decrease in cash and cash equivalents</b>	(44,942)	(36,101)
<b>Cash and cash equivalents at beginning of period</b>	100,314	108,369
<b>Cash and cash equivalents at end of period</b>	\$ 55,372	72,268

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**

**September 30, 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 November 6, 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.

(Continued)

**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.

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

	<b>January 1, 2019</b>
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)
	<u>\$ 34,910</u>
Discounted using the incremental borrowing rate at January 1, 2019 (Lease liabilities recognized at January 1, 2019)	<u>\$ 33,689</u>

(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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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 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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

<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 IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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 significant changes are as follows:

Amendments to IAS 1 “Presentation of financial statement” 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 will continue to assess the impacts of this amendment on its consolidated financial position and financial performance.

(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:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020

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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.

**(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
			September 30, 2019	December 31, 2018	September 30, 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 Neovo 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**  
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(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.

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

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

**(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.

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## (a) Cash and cash equivalents

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Petty cash, checking accounts and demand deposits	\$ 51,801	96,931	68,891
Time deposits	<u>3,571</u>	<u>3,383</u>	<u>3,377</u>
	<b><u>\$ 55,372</u></b>	<b><u>100,314</u></b>	<b><u>72,268</u></b>

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
<b>Mandatorily measured at fair value through profit or loss</b>			
Derivative instruments not used for hedging:			
Forward exchange contracts	\$ <u>401</u>	<u>-</u>	<u>127</u>
<b>Financial liabilities designated as at fair value through profit or loss</b>			
Derivative instruments not used for hedging:			
Forward exchange contracts	\$ <u>-</u>	<u>-</u>	<u>259</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:

	<b>September 30, 2019</b>		
	<b>Contract amount (in thousands)</b>	<b>Currency</b>	<b>Maturity date</b>
<b>Financial assets:</b>			
Forward exchange sold	EUR <u>479</u>	EUR to USD	2019.10.04~2019.10.16
	<b>September 30, 2018</b>		
	<b>Contract amount (in thousands)</b>	<b>Currency</b>	<b>Maturity date</b>
<b>Financial assets:</b>			
Forward exchange sold	EUR <u>863</u>	EUR to USD	2018.10.05~2018.11.23
<b>Financial liabilities:</b>			
Forward exchange sold	EUR <u>678</u>	EUR to USD	2018.10.15~2018.11.15

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

	<b>September 30, 2018</b>
Equity investments at fair value through other comprehensive income:	
Preferred stock unlisted on foreign market-IRONYUN	\$ <b>33,974</b>

- (i) The Group designated the investments shown above as equity securities at fair value through other comprehensive income, because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes.
- (ii) The Group purchased newly issued shares of IRONYUN INCORPORATED (IRONYUN) in November 2017, amounting to \$3,010. The investments were accounted for as non-current prepayments for investments since the Group has not yet acquired the shares. On December 31, 2018, the Group's cumulative investment amount was \$36,984 (including prepayment for investments), then the Group measured its fair value reduce to \$0 and recognized total amount of unrealized evaluation loss. Please refer to Note 6(b) of the 2018 annual consolidated financial statements for other related information.
- (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 gain of \$43,450, was transferred to retained earnings from other comprehensive income. Please refer to Note 6(f) for other related information.
- (iv) As of September 30, 2018, the Group did not provide any of the aforementioned financial assets as collaterals for its loans.
- (v) For credit risk and market risk, please refer to note 6(v).

(d) Notes and accounts receivable

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Notes receivable from operating activities	\$ 14	52	313
Accounts receivable	66,164	98,535	88,049
	66,178	98,587	88,362
Less: Loss allowance	(51)	(27)	(43)
	<b>\$ 66,127</b>	<b>98,560</b>	<b>88,319</b>

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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:

	<b>September 30, 2019</b>		
	<b>Gross carrying amount</b>	<b>Weighted-average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 55,472	0%	-
1 to 30 days past due	10,397	0.39%	41
31 to 90 days past due	309	3.24%	10
	<b>\$ 66,178</b>		<b>51</b>
	<b>December 31, 2018</b>		
	<b>Gross carrying amount</b>	<b>Weighted-average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 90,336	0%	-
1 to 30 days past due	8,010	0.24%	19
31 to 90 days past due	241	3.32%	8
	<b>\$ 98,587</b>		<b>27</b>
	<b>September 30, 2018</b>		
	<b>Gross carrying amount</b>	<b>Weighted-average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 83,066	0.04%	30
1 to 30 days past due	5,165	0.15%	8
31 to 90 days past due	131	4%	5
	<b>\$ 88,362</b>		<b>43</b>

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

	<b>For the nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 27	51
Impairment losses recognized	24	-
Impairment losses reversed	-	(8)
Balance at September 30	<b>\$ 51</b>	<b>43</b>

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As of September 30, 2019, December 31 and September 30, 2018, the Group did not provide any of the aforementioned notes and accounts receivable as collaterals for its loans.

(e) Inventories

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Merchandise inventories	<u>\$ 281,822</u>	<u>205,082</u>	<u>277,303</u>

The details of cost of sales for the three months ended September 30, 2019 and 2018 and the nine months ended September 30, 2019 and 2018, were as follows:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Cost of goods sold and expenses	\$ 93,687	118,471	286,776	367,841
Inventory valuation loss and obsolescence (reversed)	<u>(2,013)</u>	<u>(499)</u>	<u>(2,629)</u>	<u>(818)</u>
	<u>\$ 91,674</u>	<u>117,972</u>	<u>284,147</u>	<u>367,023</u>

For the three months and nine months ended September 30, 2019 and 2018, the Group reversed its allowance for inventory valuation loss and obsolescence, amounting to \$2,013, \$499, \$2,629 and \$818, respectively.

As of September 30, 2019, December 31 and September 30, 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:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Associates	<u>\$ 107,663</u>	<u>115,099</u>	<u>119,751</u>

(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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The 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		
			September 30, 2019	December 31, 2018	September 30, 2018
Taiwan Biophotonic Corporation (tBPC)	Shareholder with significant influence	Taiwan	26.30 %	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

	September 30, 2019	December 31, 2018	September 30, 2018
Current assets	\$ 30,945	46,587	61,519
Non-current assets	73,715	64,141	66,009
Current liabilities	(4,320)	(6,247)	(8,511)
Non-current liabilities	(15,829)	-	-
Net assets	<u>\$ 84,511</u>	<u>104,481</u>	<u>119,017</u>
Net assets attributable to owners of the associate	<u>\$ 84,511</u>	<u>104,481</u>	<u>119,017</u>
		<b>For the nine months ended September 30, 2019</b>	<b>For the three months ended September 30, 2018</b>
Operating revenue		<u>\$ 10,850</u>	<u>2,402</u>
Loss from continuing operations (equal to comprehensive loss)		<u>\$ (19,970)</u>	<u>(16,610)</u>
Total comprehensive loss attributable to owners of the associate		<u>\$ (19,970)</u>	<u>(16,610)</u>

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	<b>For the nine months ended September 30, 2019</b>	<b>For the four months ended September 30, 2018</b>
Share of net assets of the associate to the Group in the period	\$ -	35,670
Share of net assets of the associate to the Group at the acquisition date	27,365	-
Comprehensive loss attributable to the Group	(5,412)	(4,327)
Share of net assets of the associate at the period ended	21,953	31,343
Additional fair value adjustments of patented technology	44,970	47,668
Additional goodwill	40,740	40,740
Carrying amounts of the investment	<b>\$ 107,663</b>	<b>119,751</b>

(ii) Pledges

As of September 30, 2019, December 31 and September 30, 2018, the Group did not provide any investment accounted for using equity method as collateral for its loans.

(g) Property, plant and equipment

	<b>Land</b>	<b>Buildings and building improvement</b>	<b>Machinery and R&amp;D equipment</b>	<b>Molding equipment and other equipment</b>	<b>Total</b>
<b>Carrying amounts:</b>					
Balance at January 1, 2019	\$ 95,104	24,235	921	2,585	122,845
Balance at September 30, 2019	\$ 95,104	23,474	603	1,998	121,179
Balance at January 1, 2018	\$ 95,104	24,745	1,452	2,599	123,900
Balance at September 30, 2018	\$ 95,104	24,488	1,092	2,512	123,196

There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the nine months ended September 30, 2019 and 2018. Information on depreciation for the periods are disclosed in Note 12(a). Please refer to Note 6(g) of the 2018 annual consolidated financial statements for other related information.

As of September 30, 2019, December 31 and September 30, 2018, 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) 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>
<b>Cost:</b>			
Balance at 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>(503)</u>	<u>(382)</u>	<u>(885)</u>
Balance at September 30, 2019	<u><u>\$ 22,424</u></u>	<u><u>10,380</u></u>	<u><u>32,804</u></u>
<b>Accumulated depreciation and impairment losses:</b>			
Balance at January 1, 2019	\$ -	-	-
Depreciation for the period	4,532	2,703	7,235
Effect of change in foreign exchange rates	<u>(67)</u>	<u>(73)</u>	<u>(140)</u>
Balance at September 30, 2019	<u><u>\$ 4,465</u></u>	<u><u>2,630</u></u>	<u><u>7,095</u></u>
<b>Carrying amounts:</b>			
Balance at September 30, 2019	<u><u>\$ 17,959</u></u>	<u><u>7,750</u></u>	<u><u>25,709</u></u>

The Group leases offices, office equipment and transportation under the finance lease for the nine months ended September 30, 2018, please refer to note 6(n).

(i) Investments property

Details of the investments property is summarized as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<b>Carrying amounts:</b>			
Balance at January 1, 2019	<u>\$ 111,400</u>	<u>53,433</u>	<u>164,833</u>
Balance at September 30, 2019	<u>\$ 111,400</u>	<u>52,545</u>	<u>163,945</u>
Balance at January 1, 2018	<u>\$ 111,400</u>	<u>54,616</u>	<u>166,016</u>
Balance at September 30, 2018	<u>\$ 111,400</u>	<u>53,728</u>	<u>165,128</u>

There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the nine months ended September 30, 2019 and 2018. Information on depreciation for the periods are 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 September 30, 2019, December 31 and September 30, 2018, the investment property has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

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## (j) Intangible Assets

	<u>Computer software and others</u>
<b>Carrying amounts:</b>	
Balance at January 1, 2019	\$ <u>3,470</u>
Balance at September 30, 2019	\$ <u>3,920</u>
Balance at January 1, 2018	\$ <u>2,274</u>
Balance at September 30, 2018	\$ <u>3,246</u>

There were no significant additions, disposal, or recognition and reversal of impairment losses of intangible assets for the nine months ended September 30, 2019 and 2018. Information on amortization for the periods are disclosed in Note 12(a). Please refer to Note 6(i) of the 2018 annual consolidated financial statements for other related information.

As of September 30, 2019, December 31 and September 30, 2018, the Group did not provide any intangible assets as collaterals for its loans.

## (k) Short-term borrowings

The details of short-term borrowings were as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Unsecured bank loans	\$ 81,593	33,448	67,418
Secured bank loans	<u>108,000</u>	<u>84,000</u>	<u>74,000</u>
Total	<u>\$ 189,593</u>	<u>117,448</u>	<u>141,418</u>
Unused credit lines for short-term borrowings	<u>\$ 259,253</u>	<u>331,552</u>	<u>307,582</u>
Range of interest rates	<u>1.10%~3.38%</u>	<u>1.10%~3.34%</u>	<u>1.10%~3.34%</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 for the nine months ended September 30, 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 related to sale of products are assessed based on historical information.

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(m) Lease liabilities

The details of lease liabilities were as follow:

	<b>September 30, 2019</b>
Current	<u>\$ 8,744</u>
Non-current	<u>\$ 17,261</u>

For the maturity analysis, please refer to note 6(v).

The amounts recognized in profit or loss were as follows:

	<b>For the three months ended September 30, 2019</b>	<b>For the nine months ended September 30, 2019</b>
Interest on lease liabilities	<u>\$ 120</u>	<u>344</u>
Variable lease payments not included in the measurement of lease liabilities	<u>\$ 1,057</u>	<u>2,612</u>
Expenses relating to short-term leases	<u>\$ 533</u>	<u>1,204</u>

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

	<b>For the nine months ended September 30, 2019</b>
Total cash outflow for leases	<u>\$ 11,092</u>

(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.

The Group also leases office equipments with contract terms of less than one year. 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**  
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(n) Operating lease

(i) The Group as lessee

Non-cancellable operating lease rentals payable were as follows:

	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Less than one year	\$ 9,854	8,530
Between one and five years	24,487	20,040
Over than five years	<u>802</u>	<u>1,627</u>
	<b><u>\$ 35,143</u></b>	<b><u>30,197</u></b>

(ii) The Group as lessor

The Group leases out its investment property. The Group has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to note 6(i) sets out information about the operating leases of investment property.

There was no maturity analysis of lease payments, showing the undiscounted lease payments to be received, after the reporting date.

The future lease receivables under non-cancellable leases are as follows:

	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Less than one year	\$ 4,044	4,044
Between one and five years	<u>8,914</u>	<u>9,925</u>
	<b><u>\$ 12,958</u></b>	<b><u>13,969</u></b>

(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.

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

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Selling expenses	\$ 423	210	1,242	698
Administrative expenses	404	507	1,235	1,142
Research and development expenses	173	202	550	483
	<b>\$ 1,000</b>	<b>919</b>	<b>3,027</b>	<b>2,323</b>

(p) Income taxes

(i) Income tax expenses

The amounts of income tax for the three months and nine months ended September 30, 2019 and 2018 were as follows:

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Current tax expenses	<b>\$ 1,383</b>	<b>909</b>	<b>5,556</b>	<b>2,758</b>

(ii) The Company's income tax returns for the year through 2017 have been examined by the tax authorities.

(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 September 30, 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:

	<b>September</b>	<b>December 31,</b>	<b>September</b>
	<b>30, 2019</b>	<b>2018</b>	<b>30, 2018</b>
Additional paid-in capital	\$ 20,986	20,986	20,986
Restricted employee shares	(2,265)	(9)	530
Employee stock options	5,343	5,343	5,154
Donation from shareholders	1,259	680	680
	<b>\$ 25,323</b>	<b>27,000</b>	<b>27,350</b>

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**ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES**  
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(ii) Retained Earnings

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

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

Based on the resolutions made during the stockholders' meeting held on June 19, 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.

(iii) Treasury shares

Based on the resolutions made during the board meetings on May 8 and August 7, 2019, respectively, the Company determined to repurchase 1,500 shares each, totaling 3,000 treasury shares, to be converted into employee stock options. As of September 30, 2019, a total of 2,494 treasury shares, which had been repurchased, have yet to be converted or cancelled.

Movement of treasury share was as follows:

	<b>For the nine months ended September 30, 2019</b>	
	<b>Share (thousands)</b>	<b>Amount</b>
Balance at period beginning	-	\$ -
Repurchase	2,494	22,420
Balance at period ended	2,494	\$ 22,420

Pursuant to the Securities and Exchange Act, the number of treasury shares purchased cannot exceed 10% of the number of shares issued. The total purchase cost cannot exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus.

In accordance with the requirements of Securities and Exchange Act, treasury shares held by the Company should not be pledged. These shares do not hold any shareholder rights before their completion of transfer.

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(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 September 30, 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.

(i) Restricted stocks for employees

During 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	
	<u>2019</u>	<u>2018</u>
Outstanding units at period beginning	8	334
Granted during the period	<u>1,880</u>	<u>-</u>
Outstanding at period ended	<u><u>1,888</u></u>	<u><u>334</u></u>

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As of September 30, 2019 and 2018, unearned employee compensation balances were \$10,664 and \$3,044, respectively.

The expense (reversal) incurred by the Company for restricted stocks for employees from January 1 to September 30, 2019 and 2018, respectively, were \$5,894 and \$(2,207).

(ii) Employee stock options

The compensation cost related to employee stock options from January 1 to September 30, 2018 was \$563, with a corresponding increase in capital surplus, please refer to note 6(q).

(s) Earnings (loss) per share

The Company's basic earnings per share and diluted earnings per share were computed as follows:

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Basic earnings (loss) per share:</b>				
Net income (loss)	\$ <u>(9,774)</u>	<u>6,434</u>	<u>(37,694)</u>	<u>8,956</u>
Weighted-average number of shares outstanding (thousands)	<u>50,663</u>	<u>52,471</u>	<u>51,722</u>	<u>52,471</u>
Basic earnings per share (dollars)	\$ <u>(0.19)</u>	<u>0.12</u>	<u>(0.73)</u>	<u>0.17</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>320</u>		<u>320</u>
Weighted-average number of shares outstanding (thousand)		<u>52,791</u>		<u>52,791</u>
Diluted earnings per share (dollars)		\$ <u>0.12</u>		<u>0.17</u>

The employee stock options have an anti-dilutive effect; hence, they were not included in the computation of the weighted-average number of shares (diluted). The Company has no diluted earnings per share in each quarter of 2019.

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## (t) Revenue from contracts with customers

## (i) Disaggregation of revenue

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Primary geographical markets				
Netherlands	\$ 25,183	33,439	68,493	120,566
Germany	38,471	58,815	122,894	146,250
United States	12,988	10,625	38,736	26,344
Other	<u>66,794</u>	<u>80,488</u>	<u>204,523</u>	<u>251,855</u>
	<b><u>\$ 143,436</u></b>	<b><u>183,367</u></b>	<b><u>434,646</u></b>	<b><u>545,015</u></b>
Major products / services lines				
LED monitors	\$ 139,160	178,453	420,367	530,316
Medical equipments	1,215	1,654	4,503	5,203
Other accessories	1,870	2,249	6,563	6,463
Rental revenues	<u>1,191</u>	<u>1,011</u>	<u>3,213</u>	<u>3,033</u>
	<b><u>\$ 143,436</u></b>	<b><u>183,367</u></b>	<b><u>434,646</u></b>	<b><u>545,015</u></b>

## (ii) Contract balance

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Contract liability (Unearned sales revenue)	<u>\$ 77</u>	<u>664</u>	<u>48</u>

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.

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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 remunerations to employees amounted to \$738 and \$1,018, and the remunerations to directors both amounted to \$204, for the three months and the nine month ended September 30, 2018, respectively. 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.

The Company had loss before income tax for the nine months ended September 30, 2019. No remuneration to employees, directors and supervisors was recognized.

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.

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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>September 30, 2019</b>				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 189,593	(189,593)	(189,593)	-
Notes and accounts payable	33,815	(33,815)	(33,815)	-
Lease liabilities (including current and non-current)	26,005	(26,851)	(9,123)	(17,728)
Other payables	<u>62,064</u>	<u>(62,064)</u>	<u>(62,064)</u>	<u>-</u>
	<u><b>\$ 311,477</b></u>	<u><b>(312,323)</b></u>	<u><b>(294,595)</b></u>	<u><b>(17,728)</b></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><b>\$ 220,430</b></u>	<u><b>(220,430)</b></u>	<u><b>(219,485)</b></u>	<u><b>(945)</b></u>
<b>September 30, 2018</b>				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 141,418	(141,418)	(141,418)	-
Notes and accounts payable	66,063	(66,063)	(66,063)	-
Other payables	58,268	(58,268)	(58,268)	-
Guarantee deposits	945	(945)	-	(945)
Derivative financial liabilities:				
Forward exchange contracts	259			
Outflow		(24,039)	(24,039)	-
Inflow		<u>23,882</u>	<u>23,882</u>	<u>-</u>
	<u><b>\$ 266,953</b></u>	<u><b>(266,851)</b></u>	<u><b>(265,906)</b></u>	<u><b>(945)</b></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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(iii) Market risk

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

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

	September 30, 2019			December 31, 2018			September 30, 2018		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets									
Monetary items									
USD	\$ 250	USD/NTD =31.04	7,756	1,470	USD/NTD =30.715	45,161	172	USD/NTD =30.525	5,235
USD	57	USD/EUR =1.0938	1,772	25	USD/EUR =1.1460	764	44	USD/EUR =1.1623	1,354
Financial liabilities									
Monetary items									
USD	1,126	USD/NTD =31.04	34,962	703	USD/NTD =30.715	21,599	1,587	USD/NTD =30.525	48,447
USD	800	USD/EUR =1.0938	24,832	-	USD/EUR =1.1460	-	-	USD/EUR =1.1623	-

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 September 30, 2019 and 2018 would have affected the net profit before tax as follows:

	September 30, 2019	September 30, 2018
USD (against the NTD)		
Appreciate 5%	\$ (1,360)	(2,161)
Depreciate 5%	1,360	2,161
USD (against the EUR)		
Appreciate 5%	(1,153)	68
Depreciate 5%	1,153	(68)

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

3) Foreign exchange gain and loss on monetary items

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount for disclosure. For the three months and nine

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months ended September 30, 2019 and 2018, the foreign exchange gains (losses), including realized and unrealized ones, amounted to \$(2,095), \$(50), \$(1,535) and \$(2,885), 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 \$288 for the nine months ended September 30, 2019, and the net profit before tax would have decreased or increased by \$220 for the nine months ended September 30, 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.

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 :

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	September 30, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss:</b>					
Derivative financial assets	\$ <u>127</u>	-	127	-	127
<b>Financial assets at fair value through other comprehensive income:</b>					
Unquoted equity instruments	<u>33,974</u>	-	-	33,974	33,974
<b>Financial assets measured at amortized cost:</b>					
Cash and cash equivalents	72,268	-	-	-	-
Notes and accounts receivable	88,319	-	-	-	-
Other receivables	138	-	-	-	-
Restricted bank deposits (recognized as other current assets)	<u>20</u>	-	-	-	-
Subtotal	<u>160,745</u>				
	<u>\$ 194,846</u>				
<b>Financial liabilities at fair value through profit or loss:</b>					
Derivative financial liabilities	\$ <u>259</u>	-	259	-	259
<b>Financial liabilities at amortized cost:</b>					
Short-term borrowing	141,418	-	-	-	-
Notes and accounts payable	66,063	-	-	-	-
Other payables	58,268	-	-	-	-
Guarantee deposits	<u>945</u>	-	-	-	-
Subtotal	<u>266,694</u>				
	<u>\$ 266,953</u>				

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

The book value of financial assets and liabilities at amortized cost 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.

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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 nine months ended September 30, 2019.

5) Reconciliation of level 3 fair values

	<b>Unquoted equity instruments</b>
	<u>                    </u>
Balance at January 1, 2018	\$ 124,974
Total profit or loss	
Recognized under other comprehensive income	2,450
Change to equity method	(93,450)
Balance at September 30, 2018	<b>\$ 33,974</b>

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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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 (Preferred stock)	Income Approach – perpetual annuity	<ul style="list-style-type: none"> <li>·Weighted Average Cost of Capital (WACC) as of September 30, 2018 was 4.21%</li> <li>·Expected rate on return for preferred stock as of September 30, 2018 was 3%</li> </ul>	·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>September 30, 2018</u>	<u>Input</u>	<u>Change</u>	<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>
Equity instruments without an active market (Preferred stock)	WACC	1%	4,018	(4,018)
	Expected rate on return for preferred stock	1%	4,018	(4,018)

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

- (w) Financial risk management

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

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(x) 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 as the total liabilities being subtracted to the total assets.

The liability ratios were as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Total liabilities	\$ 319,788	232,644	274,686
Total assets	844,553	817,908	895,656
Liability ratio	38 %	28 %	31 %

As of September 30, 2018, the raise in the debt-to-equity ratio was due to the increase in borrowing. Likewise, the borrowing increase was a direct result of the Group's demand for funding.

(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 nine months ended September 30, 2019 and 2018 is the acquisition of right-of-use assets by lease, please refer to note 6(h).

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

	<u>January 1, 2019</u>	<u>Cash flows</u>	<u>Non-cash changes Foreign exchange movement</u>	<u>September 30, 2019</u>
Short-term borrowings	\$ 117,448	72,145	-	189,593
Lease liabilities	33,689	(6,932)	(752)	26,005
Total liabilities from financing activities	<u>\$ 151,137</u>	<u>65,213</u>	<u>(752)</u>	<u>215,598</u>
	<u>January 1, 2018</u>	<u>Cash flows</u>	<u>September 30, 2018</u>	
Short-term borrowings	<u>\$ 88,299</u>	<u>53,119</u>	<u>141,418</u>	

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**(7) Related-party transactions:**

Key management personnel compensation

Key management personnel compensation comprised:

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Short-term employee benefits	\$ 4,003	3,788	12,877	9,297
Post-employment benefits	148	54	446	162
	<b><u>\$ 4,151</u></b>	<b><u>3,842</u></b>	<b><u>13,323</u></b>	<b><u>9,459</u></b>

**(8) Pledged assets:**

The carrying amounts of pledged assets were as follows:

<b>Pledged assets</b>	<b>Object</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Land and buildings	Guarantee for short-term loans and the credit line	\$ 116,056	116,418	116,539
Investment property	Guarantee for short-term loans and the credit line	163,945	164,833	165,128
Restricted bank deposits	Warranty guarantee	129	129	20
		<b><u>\$ 280,130</u></b>	<b><u>281,380</u></b>	<b><u>281,687</u></b>

**(9) Significant Commitments and contingencies:**

As of September 30, 2019, December 31 and September 30, 2018, the unused balance of the Group's letters of credit amounted to \$154, \$0 and \$0, respectively.

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

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**(12) Other:**

- (a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function	For the three months ended September 30,					
	2019			2018		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
<b>By item</b>						
Employee benefits						
Salary	-	27,346	27,346	-	25,905	25,905
Labor and health insurance	-	3,366	3,366	-	3,386	3,386
Pension	-	1,000	1,000	-	919	919
Others	-	1,147	1,147	-	1,108	1,108
Depreciation	305	2,922	3,227	296	637	933
Amortization	-	272	272	285	165	450

By function	For the nine months ended September 30,					
	2019			2018		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
<b>By item</b>						
Employee benefits						
Salary	-	82,570	82,570	-	74,887	74,887
Labor and health insurance	-	10,813	10,813	-	9,929	9,929
Pension	-	3,027	3,027	-	2,323	2,323
Others	-	3,462	3,462	-	3,085	3,085
Depreciation	897	9,096	9,993	888	1,865	2,753
Amortization	135	815	950	720	469	1,189

Note: The depreciation for the three months and nine months ended September 30, 2019 and 2018 included the depreciation of investment property amounted to \$295, \$296, \$887 and \$888, respectively.

- (b) Seasonality of operations

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

**(13) Other disclosure items:**

- (a) Information on significant transactions:

The followings are the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the nine months ended September 30, 2019:

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- (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)	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	524,765	150,000	150,000	52,410	-	28.58 %	524,765	Yes	No	No
0	"	AG Neovo USA	"	524,765	30,000	30,000	-	-	5.72 %	524,765	Yes	No	No

Note : According to the Company's Procedures for Endorsement and Guarantee, the total amount of endorsements and 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 September 30, 2019 (excluding the investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Company holding securities	Security type and name	Relationship with the Company	Account	September 30, 2019				Remark
				Shares/Units (in 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

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 purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

Company name	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Remark
			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	229,850	(91) %	Depending on the demand for funding	Not applicable	General transactions for 30 to 150 days collection	Note 1	-%	Note 2

Note 1 : As of September 30, 2019, the amount of unearned sales revenue was \$143,904.

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

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(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	Amount	Terms	
0	The Company	AG Neovo B.V	1	Operating revenue	229,850	The price is marked up based on the operating cost, and the receivables depend on the funding demand with in the credit period.	52.88 %
0	"	"	1	Unearned sales revenue	143,904	"	17.04 %
0	"	AG Neovo USA	1	Operating revenue	10,447	"	2.40 %
0	"	"	1	Accounts receivable	8,571	"	1.01 %

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.

(b) Information on investees:

The following is the information on investees for the nine months ended September 30, 2019 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars/ foreign currencies and thousand units)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Ending Balance as of September 30, 2019			Net income (losses) of the Investee (Note2)	Investment income (loss) recognized by the Company (Note2)	Remark
				September 30, 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 %	14,504	(8,845)	(8,845)	Note 3
"	AG Neovo B.V	Netherlands	Sales of LCD monitors	187,013	187,013	4.8	100 %	182,415	(11,100)	(11,100)	"
"	AG Neovo Investment	British Virgin Islands	Investment	14,796	14,796	0.5	100 %	9,208	(3,629)	(3,629)	"
"	Taiwan Biophotonic Corporation	Taiwan	Manufacturing and sale of medical equipment	81,527	81,527	8,153	26 %	107,663	(19,970)	(7,436)	"
GMF	AG Neovo International	British Virgin Islands	Investment	14,899 (US\$ 480)	14,899 (US\$ 480)	0.01	100 %	7 (US\$ -)	- (US\$ -)	Recognized by shareholding percentage by GMF	Note 3
"	AG Neovo USA	U.S.A.	Sales of LCD monitors and medical equipment	62,080 (US\$ 2,000)	62,080 (US\$ 2,000)	701	100 %	13,172 (US\$ 424)	(8,541) (US\$ (275))	"	"

Note1: The amounts in New Taiwan Dollars were translated at the exchange rates of USD31.04 at reporting date.

Note2: The amounts in New Taiwan Dollars were translated at the exchange rates of USD31.0469 based on the average exchange rate at reporting date.

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

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(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/foreign currencies and thousand units)

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 September 30, 2019 (Note 2)	Net income (loss) of the investee (Note 3)	Percentage of ownership	Investment income (loss) recognized (Note 3)	Carrying value as of September 30, 2019	Accumulated remittance of earnings as of September 30, 2019
					Outflow	Inflow						
AG Neovo (Shanghai)	Sales of LCD monitors	15,520 (US\$500)	Note 1	15,520 (US\$500)	-	-	15,520 (US\$500)	(3,574) (US\$(115))	100%	(3,574) (US\$(115))	9,906 (US\$319)	-

- (ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of September 30, 2019 (Notes 2 and 4)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 2 and 4)	Upper Limit on Investment
125,277 (US\$4,036)	125,277 (US\$4,036)	314,859

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 USD31.04 at reporting date.

Note 3 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD31.0469 based on the average exchange rate at reporting date.

Note 4 : Including the withdrawn amount of investment from the Shanghai CIMC Baowell Industries Co., Ltd.

- (iii) Significant transactions: None.

**(14) Segment information:**

The Group's operating segment information and reconciliation are as follows:

	For the three months ended September 30, 2019					
	Europe	America	Taiwan	Others	Reconciliation & Elimination	Total
<b>Revenue</b>						
Revenue from external customers	\$ 125,720	11,765	4,509	1,442	-	143,436
Revenue from segments	2,197	78	75,456	-	(77,731)	-
	<u>\$ 127,917</u>	<u>11,843</u>	<u>79,965</u>	<u>1,442</u>	<u>(77,731)</u>	<u>143,436</u>
<b>Reportable segment profit (loss)</b>	<u>\$ (2,663)</u>	<u>(3,209)</u>	<u>(9,774)</u>	<u>(1,114)</u>	<u>8,369</u>	<u>(8,391)</u>
	For the three months ended September 30, 2018					
	Europe	America	Taiwan	Others	Reconciliation & Elimination	Total
<b>Revenue</b>						
Revenue from external customers	\$ 165,295	11,407	3,944	2,721	-	183,367
Revenue from segments	485	33	94,856	(2)	(95,372)	-
	<u>\$ 165,780</u>	<u>11,440</u>	<u>98,800</u>	<u>2,719</u>	<u>(95,372)</u>	<u>183,367</u>
<b>Reportable segment profit (loss)</b>	<u>\$ 8,770</u>	<u>(580)</u>	<u>6,434</u>	<u>(475)</u>	<u>(6,806)</u>	<u>7,343</u>

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	For the nine months ended September 30, 2019					
	Europe	America	Taiwan	Others	Reconciliation & Elimination	Total
<b>Revenue</b>						
Revenue from external customers	\$ 384,884	33,361	12,819	3,582	-	434,646
Revenue from segments	<u>8,444</u>	<u>251</u>	<u>240,297</u>	<u>-</u>	<u>(248,992)</u>	<u>-</u>
	<u>\$ 393,328</u>	<u>33,612</u>	<u>253,116</u>	<u>3,582</u>	<u>(248,992)</u>	<u>434,646</u>
<b>Reportable segment profit (loss)</b>	<u>\$ (5,568)</u>	<u>(8,821)</u>	<u>(37,694)</u>	<u>(3,629)</u>	<u>23,574</u>	<u>(32,138)</u>
	For the nine months ended September 30, 2018					
	Europe	America	Taiwan	Others	Reconciliation & Elimination	Total
<b>Revenue</b>						
Revenue from external customers	\$ 489,649	28,825	15,308	11,233	-	545,015
Revenue from segments	<u>4,026</u>	<u>631</u>	<u>289,871</u>	<u>202</u>	<u>(294,730)</u>	<u>-</u>
	<u>\$ 493,675</u>	<u>29,456</u>	<u>305,179</u>	<u>11,435</u>	<u>(294,730)</u>	<u>545,015</u>
<b>Reportable segment profit (loss)</b>	<u>\$ 13,770</u>	<u>(2,915)</u>	<u>8,956</u>	<u>(1,220)</u>	<u>(6,877)</u>	<u>11,714</u>