

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

CONSOLIDATED FINANCIAL STATEMENTS

**With Independent Auditors' Report
for the Years Ended December 31, 2020 and 2019**

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

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Representation Letter

The entities that are required to be included in the combined financial statements of Associated Industries China, Inc. as of and for the year ended December 31, 2020 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Associated Industries China, Inc. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Associated Industries China, Inc.
Chairman: Jackson Y. Yu
Date: March 17, 2021



安侯建業聯合會計師事務所

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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Associated Industries China, Inc. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Other Matter

Associated Industries China, Inc. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2020 and 2019, on which we have issued unmodified opinions with other matters paragraph.

We did not audit the financial statements of Taiwan Biophotonic Corporation (tBPC), an associate of the Group, which represented investment in accounted for using the equity method. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for tBPC, is based solely on the report of another auditor. The balance of investment in tBPC accounted for using the equity method constituted 3.60% and 2.57% of the consolidated total assets at December 31, 2020 and 2019, respectively, and the related shares of profit and loss of associates accounted for using the equity method constituting 12.45% and 6.74% of the consolidated total loss before tax for the years then ended, respectively.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key and and it matters to be communicated in our report as follows:

Inventory valuation

Please refer to Note 4(h) Inventories and Note 5 of the consolidated financial statements for inventory valuation and uncertainties of inventory valuation, respectively. Detailed information regarding the inventory is presented in Note 6(d) of the consolidated financial statements.

Description of key audit matters:

As inventories are measured at the lower of cost or net realizable value. The major business activities of the Group are the research, development and sale of LCD monitors, medical equipment and related components. The inventories are exposed to the risk of valuate loss and obsolescence due to the market vulnerability. Therefore, the inventory valuation is one of the important assessment items to perform our audit.

Audit Procedures:

Our principal audit procedures include: examining whether the inventory valuation policy and accounting policy applied by the Group are reasonable and in compliance with the accounting standards; inspecting the inventory aging report; analyzing the changes of inventory aging for each period; and testing the relevant amount of calculation for the lower of cost or net realizable value.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 17, 2021

Notes to Readers

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

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

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

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

		2020		2019	
		Amount	%	Amount	%
4000	Operating revenues, net (note 6(s)):				
4110	Sales revenue	\$ 533,892	99	594,352	99
4310	Rental income (note 6(m))	<u>5,099</u>	<u>1</u>	<u>3,213</u>	<u>1</u>
		538,991	100	597,565	100
5000	Operating costs (notes 6(d) 、(m) and 12)	<u>356,848</u>	<u>66</u>	<u>397,883</u>	<u>67</u>
5950	Gross profit from operations	<u>182,143</u>	<u>34</u>	<u>199,682</u>	<u>33</u>
	Operating expenses (notes 6(n) and 12):				
6100	Selling expenses	117,065	22	133,171	22
6200	Administrative expenses	66,401	12	73,655	12
6300	Research and development expenses	<u>13,350</u>	<u>3</u>	<u>14,226</u>	<u>2</u>
		196,816	37	221,052	36
	Net operating Loss	<u>(14,673)</u>	<u>(3)</u>	<u>(21,370)</u>	<u>(3)</u>
	Non-operating income and expenses:				
7100	Interest income	1,294	-	148	-
7190	Other income	2,859	1	322	-
7230	Foreign exchange losses, net (note 6(u))	(1,371)	-	(2,551)	-
7235	Gains (losses) on financial assets at fair value through profit or loss (note (b))	(5,205)	(1)	2,256	-
7510	Interest expense (note 6(l))	(3,404)	(1)	(3,083)	(1)
7770	Share of loss of associates and joint ventures accounted for using the equity method (note 6(e))	(4,808)	(1)	(10,175)	(2)
7670	Impairment loss (note 6(e))	<u>(12,782)</u>	<u>(2)</u>	<u>(76,422)</u>	<u>(13)</u>
		(23,417)	(4)	(89,505)	(16)
7900	Loss before tax	(38,090)	(7)	(110,875)	(19)
7950	Less: Income tax expenses (note 6(o))	<u>143</u>	<u>-</u>	<u>1,934</u>	<u>-</u>
	Loss	<u>(38,233)</u>	<u>(7)</u>	<u>(112,809)</u>	<u>(19)</u>
8300	Other comprehensive income (loss):				
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign financial statements	<u>7,923</u>	<u>1</u>	<u>(9,677)</u>	<u>(2)</u>
8300	Other comprehensive income (loss), net	<u>7,923</u>	<u>1</u>	<u>(9,677)</u>	<u>(2)</u>
8500	Comprehensive loss	<u>\$ (30,310)</u>	<u>(6)</u>	<u>(122,486)</u>	<u>(21)</u>
	Losses per share (note 6(r))				
9750	Basic losses per share (NT dollars)	<u>\$ (0.77)</u>		<u>(2.20)</u>	

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

ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2020 and 2019

(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 shares	
Balance at January 1, 2019	\$ 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)	-	-	-	-	-	-
Loss for the year ended December 31, 2019	-	-	-	-	(112,809)	-	-	-	-	-	(112,809)
Other comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	(9,677)	-	-	(9,677)	-	(9,677)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	(112,809)	(9,677)	-	-	(9,677)	-	(122,486)
Other changes in capital surplus:											
Share-based payment transactions	18,716	(2,247)	-	-	-	-	-	(8,672)	(8,672)	-	7,797
Donation from shareholders	-	577	-	-	-	-	-	-	-	-	577
Purchase of treasury share	-	-	-	-	-	-	-	-	-	(24,831)	(24,831)
Balance at December 31, 2019	543,506	25,330	52,704	79,510	(112,809)	(74,693)	(33,710)	(8,686)	(117,089)	(24,831)	446,321
Loss for the year ended December 31, 2020	-	-	-	-	(38,233)	-	-	-	-	-	(38,233)
Other comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	-	7,923	-	-	7,923	-	7,923
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	(38,233)	7,923	-	-	7,923	-	(30,310)
Other changes in capital surplus:											
Share-based payment transactions	(5,440)	653	-	-	-	-	-	5,012	5,012	-	225
Donation from shareholders	-	170	-	-	-	-	-	-	-	-	170
Changes in equity of associates and joint ventures accounted for using equity method	-	3,169	-	-	-	-	-	-	-	-	3,169
Balance at December 31, 2020	\$ 538,066	29,322	52,704	79,510	(151,042)	(66,770)	(33,710)	(3,674)	(104,154)	(24,831)	419,575

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	2020	2019
Cash flows from (used in) operating activities:		
Loss before tax	\$ (38,090)	(110,875)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	12,586	13,271
Amortization expense	1,421	1,316
Expected credit loss (gain)	3	19
Net loss on financial assets or liabilities at fair value through profit or loss	3,559	-
Interest expense	3,404	3,083
Interest income	(1,294)	(148)
Share-based payments transactions	225	7,797
Share of loss of associates and joint ventures accounted for using the equity method	4,808	10,175
Impairment loss on financial assets	12,782	76,422
Total adjustments to reconcile profit (loss)	37,494	111,935
Changes in operating assets and liabilities:		
Decrease in notes and accounts receivable	6,582	36,905
Decrease (increase) in other receivables	(930)	300
Decrease (increase) in inventories	93,367	(60,740)
Decrease (increase) in prepayments	171	(5,685)
Decrease (increase) in other current assets	805	(249)
Increase (decrease) in contract liabilities	(517)	7
Increase (decrease) in notes and accounts payable	(22,691)	27,389
Increase (decrease) in other payables	11,112	(12,850)
Increase in provisions	870	201
Decrease in other current liabilities	(97)	(602)
Total changes in operating assets and liabilities	88,672	(15,324)
Total adjustments	126,166	96,611
Cash inflows (outflows) generated from operations	88,076	(14,264)
Interest received	861	148
Interest paid	(3,390)	(3,085)
Income taxes paid	(6,304)	(9,147)
Net cash flows from (used in) operating activities	79,243	(26,348)
Cash flows from (used in) investing activities:		
Acquisition of non-current financial assets at fair value through profit or loss	(10,000)	(10,000)
Acquisition of property, plant and equipment	(151)	(286)
Decrease (increase) in refundable deposits	(232)	(197)
Acquisition of intangible assets	-	(886)
Decrease (increase) in restricted deposits	-	(197)
Net cash flows used in investing activities	(10,383)	(11,566)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	(28,552)	56,584
Decrease in guarantee deposits received	-	(54)
Payment of lease liabilities	(8,967)	(9,229)
Cost of increase in treasury shares	-	(24,831)
Other financing activities	170	577
Net cash flows from (used in) financing activities	(37,349)	23,047
Effect of exchange rate changes on cash and cash equivalents	7,884	(9,655)
Net increase (decrease) in cash and cash equivalents	39,395	(24,522)
Cash and cash equivalents at beginning of period	75,792	100,314
Cash and cash equivalents at end of period	\$ 115,187	75,792

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

(1) Company history

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 17, 2021.

(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 Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2020:

- Amendments to IFRS 3 “Definition of a Business”
- Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”
- Amendments to IAS 1 and IAS 8 “Definition of Material”
- Amendments to IFRS 16 “COVID-19-Related Rent Concessions”

- (b) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its consolidated financial statements:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

(Continued)

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

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

The Group does not expect the following new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 16 “Property, Plant and Equipment – Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”

(4) Summary of significant accounting policies

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

- (a) Statement of compliance

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

- (b) Basis of preparation

- (i) Basis of measurement

Except for financial assets at fair value through profit or loss is measured at fair value, the consolidated financial statements have been prepared on the historical cost basis.

- (ii) Functional and presentation currency

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

(Continued)

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

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group ‘controls’ an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

Changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

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

List of subsidiaries in the consolidated financial statements:

Name of investor	Name of subsidiary	Principal activity	Shareholding		Note
			December 31, 2020	December 31, 2019	
The Company	AG Neovo International Ltd. (AG Neovo International, formerly named as GMF)	Investment	100 %	100 %	(Note 1)
The Company	AG Neovo Technology. BV. (AG Neovo B.V)	Sale of LCD monitors	100 %	100 %	
The Company	AG Neovo Investment Co., Ltd. (AG Neovo Investment)	Investment	100 %	100 %	
AG Neovo Investment	AG Neovo Technology (Shanghai) Co., Ltd. (AG Neovo Shanghai)	Sale of LCD monitors	100 %	100 %	
AG Neovo International (formerly named as GMF)	AG Neovo International Ltd. (AG Neovo International)	Investment	- %	100 %	(Note 1)
AG Neovo International (formerly named as GMF)	AG Neovo Technology Corp. (AG Neovo USA)	Sale of LCD monitors and medical equipment	100 %	100 %	(Note 1)

Note 1: The sub-subsidiary, AG Neovo International had, completed its liquidation procedures on April 30, 2020. Thereafter, the subsidiary, GMF, was renamed AG Neovo International Ltd. on June 30, 2020.

(Continued)

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

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Nonmonetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- an investment in equity securities designated as at fair value through other comprehensive income;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent that the hedges are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Exchange differences are recognized in other comprehensive income.

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

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

(Continued)

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

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

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

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

A liability is classified as current under one of the following criteria, and all other liabilities are classified as noncurrent.

An entity shall classify a liability as current when:

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

(f) Cash and cash equivalents

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

(g) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(Continued)

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

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through profit or loss (FVTPL)

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

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

3) Impairment of financial assets

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

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

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

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the debtor is unlikely to pay its credit obligations to the Group in full.

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

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

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

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

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

(Continued)

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;
or
- the disappearance of an active market for a security because of financial difficulties.

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

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

4) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

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

(Continued)

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

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

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

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(i) Investment in associates

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

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

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

Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate.

When the Group's share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When the Group subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differ from the amount of the Group's proportionate interest in the net assets of the associate. The Group records such a difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. The aforesaid adjustment should first be adjusted under capital surplus. If the capital surplus resulting from changes in ownership interest is not sufficient, the remaining difference is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate will be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(j) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straightline basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

1) buildings	50 years
2) Improvement to buildings	10 years
3) Machinery and research equipment	6 years

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

- | | | |
|----|-------------------|-----------|
| 4) | Molding equipment | 2 years |
| 5) | Other equipment | 3~5 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Reclassification to investment property

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

(l) Lease

(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 customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

If an arrangement contains lease and non-lease components, 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.

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

(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.

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, including in-substance 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 lease term resulting from a change of its assessment of whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a purchase, 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.

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

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 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.

(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.

(m) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

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

(ii) Subsequent expenditure

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

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

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

1) Computer software	1~5 years
2) Product development expenses	1 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(n) Impairment of – non financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(o) Provisions

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

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

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

(p) Revenue

(i) Revenue from contracts with customers

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

1) Sale of goods

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

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

2) Financing components

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

(q) Government grants and government assistance

The Group recognizes an unconditional government grant in profit or loss as other income when the grant becomes receivable. Other government grants related to assets are initially recognized as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to the defined contribution plans are expensed as the related service is provided.

(ii) Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(s) Share-based payment

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

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

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

(t) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(u) Earnings (loss) per share

The Group discloses the Company's basic and diluted earnings(losses) per share attributable to ordinary shareholders of the Company. Basic earnings(losses) per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings(losses) per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as employee compensation and new restricted stocks for employees.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(v) Operating segments

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

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

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

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

The accounting policies involved significant judgments and the information that have significant effect on the amounts recognized in the consolidated financial statements are as follows:

Judgment of whether the Group has substantive control over its investees

The Group holds 34.72% voting shares of Taiwan Biophotonic Corporation (tBPC), but only has 3 of 7 director seats of tBPC. The industry category of the Group is different from tBPC. The operating and financial activities of tBPC are led by its operating and technology teams. The Group only participates in the Board of Directors to supervise tBPC, and there is no one assigned to lead the financial, personnel, operating and other relative activities of tBPC. Hence, The Group only has significant influence on tBPC.

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

Valuation of inventories

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2020	December 31, 2019
Petty cash, checking accounts and demand deposits	\$ 112,287	72,421
Time deposits	<u>2,900</u>	<u>3,371</u>
	<u>\$ 115,187</u>	<u>75,792</u>

Please refer to note 6(u) 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 at fair value through profit or loss-non-current

	December 31, 2020	December 31, 2019
Mandatorily designated at fair value through profit or loss		
Convertible bond – tBPC	<u>\$ 6,441</u>	<u>10,000</u>

The Group acquired 100 units of secured convertible bonds and unsecured convertible bonds issued by tBPC in June 2020 and October 2019, respectively, at a par value of \$100 per unit, with a duration of one year; and they are expected to be converted into common stock of tBPC. The host contracts of the hybrid financial instrument, which must be classified as mandatorily measured at fair value through profit or loss, are financial assets within the scope of IFRS 9.

The Group exercised the first batch of convertible bonds in October 2020, the transfer price was NTD\$13 per share, the book value was \$10,800 (including interest receivable of \$800), and 831 thousand shares were acquired after converting, which were classified as investment accounted for using the equity method. Please refer to note 6(e).

The Group measured the convertible bonds at fair value on December 31, 2020, and recognized losses amounting to \$3,559, represent as gains (losses) on financial assets at fair value through profit or loss.

As of December 31, 2020 and 2019, the Group did not provide any of the aforementioned financial assets as collaterals for its loans.

(c) Notes and accounts receivable

	December 31, 2020	December 31, 2019
Notes receivable from operating activities	\$ 582	374
Accounts receivable-measured as amortized cost	<u>54,518</u>	<u>61,308</u>
	55,100	61,682
Less: Loss allowance	<u>(49)</u>	<u>(46)</u>
	<u>\$ 55,051</u>	<u>61,636</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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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:

	December 31, 2020		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 48,314	0%	-
1 to 30 days past due	6,551	0.49%	32
31 to 90 days past due	216	5.09%	11
More than 90 days past due	19	31.58%	6
	\$ 55,100		49

	December 31, 2019		
	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 51,310	0%	-
1 to 30 days past due	9,965	0.41%	41
31 to 90 days past due	198	2.53%	5
More than 90 days past due	209	0%	-
	\$ 61,682		46

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

	2020	2019
Balance at January 1	\$ 46	27
Impairment losses recognized	3	19
Balance at December 31	\$ 49	46

As of December 31, 2020 and 2019, the Group did not provide any of the aforementioned notes and accounts receivable as collaterals for its loans.

(d) Inventories

	December 31, 2020	December 31, 2019
Merchandise inventories	\$ 172,368	265,822

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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The details of cost of sales for the years ended December 31, 2020 and 2019, were as follows:

	<u>2020</u>	<u>2019</u>
Cost of goods sold and expenses	\$ 352,737	398,884
Inventory valuation loss and obsolescence (reversed)	<u>2,523</u>	<u>(3,102)</u>
	<u>\$ 355,260</u>	<u>395,782</u>

For the year ended December 31, 2020, the write-down of inventories to net realizable value amounted to \$2,523. For the year ended December 31, 2019, the Group reversed allowance for inventory valuation loss and obsolescence due to sale of obsolete stock amounted to \$3,102.

As of December 31, 2020 and 2019, the Group did not provide any inventories as collaterals for its loans.

(e) Investments accounted for using the equity method

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Associate	<u>\$ 24,881</u>	<u>28,502</u>

(i) Associate

The Group exercised convertible bonds of tBPC in October 2020, the transfer price was NTD\$13 per share, the book value was \$10,800 (including interest receivable of \$800), and 831 thousand shares were acquired after converting, which were classified as investment accounted for using the equity method. The shareholdings had increased to 34.72%. Please refer to note 6(b) for other information.

The details of the material associate are as follows:

<u>Name of Associate</u>	<u>Nature of the relationship with the Group</u>	<u>Main operating location/ Registered Country of the Company</u>	<u>Proportion of shareholding and voting rights</u>	
			<u>December 31, 2020</u>	<u>December 31, 2019</u>
tBPC	Shareholder with significant influence	Taiwan	34.72 %	26.30 %

The following aggregated financial information of the significant affiliate has been adjusted according to individually prepared IFRS financial statement to reflect the fair value adjustments made at the time of acquisition.

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1) Summarized financial information of tBPC

	December 31, 2020	December 31, 2019
Current assets	\$ 39,620	33,412
Non-current assets	60,038	72,334
Current liabilities	(18,060)	(16,573)
Non-current liabilities	(9,937)	(12,234)
Net assets	<u>\$ 71,661</u>	<u>76,939</u>
Net assets attributable to owners of the associate	<u>\$ 71,661</u>	<u>76,939</u>
	2020	2019
Operating revenue	<u>\$ 24,178</u>	<u>12,839</u>
Loss from continuing operations (equal to comprehensive loss)	<u>\$ (16,876)</u>	<u>(27,830)</u>
Total comprehensive loss attributable to owners of the associate	<u>\$ (16,876)</u>	<u>(27,830)</u>
	December 31, 2020	December 31, 2019
Share of net assets of the associate owned by the Group at period began	19,888	27,365
Share of net assets of the associate acquired by the Group for the period	6,568	-
Adjustment of capital surplus accounted for using the equity method	3,169	-
Comprehensive loss attributable to the Group	(4,744)	(7,477)
Share of net assets of the associate to the Group at the period ended	24,881	19,888
Additional fair value adjustments of patented technology	-	1,061
Additional goodwill	-	7,553
Carrying amounts of the investment	<u>24,881</u>	<u>28,502</u>

The Group assessed that there were indications of impairment due to tBPC's continuous loss in operations in recent years. On December 31, 2020 and 2019, the Group conducted an impairment test, through the assistance of an independent appraisal institute, on the valuation of its value-in-use of net identified assets and its value-in-use of equity in accordance with IAS 36 "Impairment of Asset". Based on the result of assessments, the Group recognized the impairment losses of \$12,782 and \$76,422, respectively, which was recorded as the carrying amount of investments accounted for using the equity method.

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(ii) Pledges

As of December 31, 2020 and 2019, the Group did not provide any investment accounted for using the equity method as collaterals for its loans.

(f) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group for the years ended December 31, 2020 and 2019, were as follows:

	<u>Land</u>	<u>Buildings and building improvement</u>	<u>Machinery and R&D equipment</u>	<u>Molding equipment and other equipment</u>	<u>Total</u>
Cost:					
Balance on January 1, 2020	\$ 95,104	29,484	4,922	19,516	149,026
Additions	-	-	164	74	238
Transferred out	-	-	-	(4,946)	(4,946)
Effect of movements in exchange rates	-	-	(104)	220	116
Balance on December 31, 2020	<u>\$ 95,104</u>	<u>29,484</u>	<u>4,982</u>	<u>14,864</u>	<u>144,434</u>
Balance on January 1, 2019	\$ 95,104	29,484	4,972	19,785	149,345
Additions	-	-	-	286	286
Transferred out	-	-	-	(302)	(302)
Effect of movements in exchange rates	-	-	(50)	(253)	(303)
Balance on December 31, 2019	<u>\$ 95,104</u>	<u>29,484</u>	<u>4,922</u>	<u>19,516</u>	<u>149,026</u>
Depreciation:					
Balance on January 1, 2020	\$ -	6,263	4,419	17,735	28,417
Depreciation for the year	-	1,015	357	934	2,306
Transferred out	-	-	-	(4,946)	(4,946)
Effect of movements in exchange rates	-	-	(102)	191	89
Balance on December 31, 2020	<u>\$ -</u>	<u>7,278</u>	<u>4,674</u>	<u>13,914</u>	<u>25,866</u>
Balance on January 1, 2019	\$ -	5,249	4,051	17,200	26,500
Depreciation for the year	-	1,014	418	1,043	2,475
Transferred out	-	-	-	(302)	(302)
Effect of movements in exchange rates	-	-	(50)	(206)	(256)
Balance on December 31, 2019	<u>\$ -</u>	<u>6,263</u>	<u>4,419</u>	<u>17,735</u>	<u>28,417</u>
Book value:					
Balance on December 31, 2020	<u>\$ 95,104</u>	<u>22,206</u>	<u>308</u>	<u>950</u>	<u>118,568</u>
Balance on January 1, 2019	<u>\$ 95,104</u>	<u>24,235</u>	<u>921</u>	<u>2,585</u>	<u>122,845</u>
Balance on December 31, 2019	<u>\$ 95,104</u>	<u>23,221</u>	<u>503</u>	<u>1,781</u>	<u>120,609</u>

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(g) Right-of-use assets

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

	<u>Buildings</u>	<u>Transportation</u>	<u>Total</u>
Cost:			
Balance at January 1, 2020	\$ 22,026	10,783	32,809
Additions	-	1,037	1,037
Effect of change in foreign exchange rates	327	451	778
Balance at December 31, 2020	<u>\$ 22,353</u>	<u>12,271</u>	<u>34,624</u>
Balance at January 1, 2019	\$ 22,927	10,762	33,689
Additions	-	530	530
Effect of change in foreign exchange rates	(901)	(509)	(1,410)
Balance at December 31, 2019	<u>\$ 22,026</u>	<u>10,783</u>	<u>32,809</u>
Depreciation:			
Balance at January 1, 2020	\$ 5,803	3,526	9,329
Depreciation for the period	5,699	3,398	9,097
Effect of change in foreign exchange rates	15	252	267
Balance at December 31, 2020	<u>\$ 11,517</u>	<u>7,176</u>	<u>18,693</u>
Balance at January 1, 2019	\$ -	-	-
Depreciation for the period	5,980	3,633	9,613
Effect of change in foreign exchange rates	(177)	(107)	(284)
Balance at December 31, 2019	<u>\$ 5,803</u>	<u>3,526</u>	<u>9,329</u>
Carrying amounts:			
Balance at December 31, 2020	<u>\$ 10,836</u>	<u>5,095</u>	<u>15,931</u>
Balance at December 31, 2019	<u>\$ 16,223</u>	<u>7,257</u>	<u>23,480</u>

(h) Investment property

Details of the investments property is summarized as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Total</u>
Cost			
Balance as of January 1, 2020 (Same balance as of December 31, 2020)	<u>\$ 111,400</u>	<u>59,151</u>	<u>170,551</u>
Balance as of January 1, 2019 (Same balance as of December 31, 2019)	<u>\$ 111,400</u>	<u>59,151</u>	<u>170,551</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	<u>Land</u>	<u>Buildings and construction</u>	<u>Total</u>
Depreciation:			
Balance on January 1, 2020	\$ -	6,901	6,901
Depreciation for the year	<u>-</u>	<u>1,183</u>	<u>1,183</u>
Balance on December 31, 2020	<u>\$ -</u>	<u>8,084</u>	<u>8,084</u>
Balance on January 1, 2019	\$ -	5,718	5,718
Depreciation for the year	<u>-</u>	<u>1,183</u>	<u>1,183</u>
Balance on December 31, 2019	<u>\$ -</u>	<u>6,901</u>	<u>6,901</u>
Book value:			
Balance on December 31, 2020	<u>\$ 111,400</u>	<u>51,067</u>	<u>162,467</u>
Balance on December 31, 2019	<u>\$ 111,400</u>	<u>52,250</u>	<u>163,650</u>
Fair Value:			
Balance on December 31, 2020			<u>\$ 209,710</u>
Balance on December 31, 2019			<u>\$ 192,450</u>

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

As of December 31, 2020 and 2019, the investment property has been pledged as collateral for short-term borrowings and credits. Please refer to note 8.

(i) Intangible Assets

The cost and amortization of intangible assets of the Group for the years ended December 31, 2020 and 2019, were as follows:

	<u>Product Development expense</u>	<u>Computer software and others</u>	<u>Total</u>
Cost:			
Balance on January 1, 2020			
(Same balance as of December 31, 2020)	<u>\$ -</u>	<u>12,859</u>	<u>12,859</u>
Balance on January 1, 2019	\$ 26,862	12,166	39,028
Additions	-	886	886
Disposals	<u>(26,862)</u>	<u>(193)</u>	<u>(27,055)</u>
Balance on December 31, 2019	<u>\$ -</u>	<u>12,859</u>	<u>12,859</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	Product Development expense	Computer software and others	Total
Amortization:			
Balance on January 1, 2020	\$ -	9,819	9,819
Amortization for the period	-	1,421	1,421
Balance on December 31, 2020	<u>\$ -</u>	<u>11,240</u>	<u>11,240</u>
Balance on January 1, 2019	\$ 26,862	8,696	35,558
Amortization for the period	-	1,316	1,316
Disposals	<u>(26,862)</u>	<u>(193)</u>	<u>(27,055)</u>
Balance on December 31, 2019	<u>\$ -</u>	<u>9,819</u>	<u>9,819</u>
Book value:			
Balance on December 31, 2020	<u>\$ -</u>	<u>1,619</u>	<u>1,619</u>
Balance on January 1, 2019	<u>\$ -</u>	<u>3,470</u>	<u>3,470</u>
Balance on December 31, 2019	<u>\$ -</u>	<u>3,040</u>	<u>3,040</u>

As of December 31, 2020 and 2019, the Group did not provide any intangible assets as collaterals for its loans.

(j) Short-term borrowings

The details of short-term borrowings were as follows:

	December 31, 2020	December 31, 2019
Unsecured bank loans	\$ 68,480	76,032
Secured bank loans	77,000	98,000
Total	<u>\$ 145,480</u>	<u>174,032</u>
Unused credit lines for short-term borrowings	<u>\$ 297,167</u>	<u>270,149</u>
Range of interest rates	<u>1.10%~1.83%</u>	<u>1.10%~3.38%</u>

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

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

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(k) Provisions — warranties

	<u>2020</u>	<u>2019</u>
Balance on January 1	\$ 2,600	2,413
Provisions made during the period	2,984	3,347
Provisions used during the period	(2,114)	(3,146)
Effect of movements in exchange rates	(29)	(14)
Balance on December 31	<u>\$ 3,441</u>	<u>2,600</u>

Provisions related to sale of products are assessed based on historical information.

(l) Lease liabilities

The details of lease liabilities were as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Current	\$ 6,051	8,709
Non-current	\$ 10,400	15,144

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

The amounts recognized in profit or loss were as follows:

	<u>2020</u>	<u>2019</u>
Interest on lease liabilities	\$ 355	459
Variable lease payments not included in the measurement of lease liabilities	\$ 3,796	3,540
Expenses relating to short-term leases	\$ 895	1,661

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

	<u>2020</u>	<u>2019</u>
Total cash outflow from leases	\$ 14,013	14,889

(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 vehicle, 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 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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(m) Operating lease

The Group leases out its investment property and some machinery. 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(h) sets out information about the operating leases of investment property.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date was as follows:

	December 31, 2020	December 31, 2019
Less than one year	\$ 5,090	5,090
One to two years	-	5,090
Total undiscounted lease payments	\$ 5,090	10,180

For the years ended December 31, 2020 and 2019, the rentals recognized in operating revenues amounted to \$5,099 and \$3,213, respectively; the direct costs incurred in rental, which were recognized as operating costs, amounted to \$1,588 and \$2,101, respectively.

(n) Employee benefits

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

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

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

	2020	2019
Selling expenses	\$ 1,828	1,678
Administrative expenses	1,601	1,626
Research and development expenses	660	724
	\$ 4,089	4,028

(o) Income taxes

(i) Income tax expenses

- 1) The amount of income tax for the years ended December 31, 2020 and 2019 was as follows:

	2020	2019
Current income tax expenses	\$ 143	1,934

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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- 2) Reconciliation of income tax and profit before tax for 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Profit before tax	\$ (38,090)	(110,875)
Income tax using the Company's domestic tax rate	(7,618)	(22,176)
Effect of tax rates in foreign jurisdiction	(282)	(1,148)
Recognition of domestic investment losses equity method	3,518	17,319
Realized investment losses	(12,920)	-
Current-year losses for which no deferred tax asset was recognized	14,281	2,707
Change in unrecognized temporary differences	2,548	2,804
Other	<u>616</u>	<u>2,428</u>
	<u>\$ 143</u>	<u>1,934</u>

(ii) Deferred tax assets

- 1) Unrecognized deferred tax assets

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Tax effect of deductible temporary differences	\$ 95,872	93,324
The carryforward of unused tax losses	102,709	94,632
Foreign currency translation differences of foreign operations	<u>13,354</u>	<u>14,939</u>
	<u>\$ 211,935</u>	<u>202,895</u>

The Company is able to control the timing of the reversal of the temporary differences related to the investments in subsidiaries on December 31, 2020 and 2019. The temporary differences arising from the investments in subsidiaries where there is a probability that such temporary differences will not reverse in the foreseeable future were not recognized as deferred tax assets.

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The Company estimated tax losses which could be used to offset future taxable income as of December 31, 2020, were as follows:

<u>Year of loss</u>	<u>Unused tax credits</u>	<u>Expiry year</u>	<u>Remark</u>
2012	46,884	2022	(assessed)
2014	66,771	2024	(assessed)
2015	25,105	2025	(assessed)
2016	8,868	2026	(assessed)
2017	2,593	2027	(assessed)
2019	3,555	2029	(declared)
2020	73,763	2030	(estimated)
	<u>\$ 227,539</u>		

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. The tax losses mentioned above could be used to offset future taxable income. Because of the uncertainty of future taxable income, the Group did not recognize the deferred tax assets arising from the tax losses.

According to the US Tax Act, the assessed loss carryforward of AG Neovo USA can be used to offset against federal and state taxable income over a period of twenty years. As of December 31, 2020, AG Neovo USA had unused net operating loss amounting to US\$9,175 thousands and US\$781 thousands for federal and state income tax return purposes, respectively, which can be carried forward through 2040.

According to Dutch Tax Act, the assessed loss carryforward of AG Neovo B.V. can be used to offset against taxable income over a period of ten years. As of December 31, 2020, AG Neovo B.V. had unused net operating loss amount to EUR\$82 thousands, which can be carried forward through 2029.

2) Recognized deferred tax assets: None.

(iii) The Company's income tax returns for the years through 2018 have been examined by the tax authorities.

(p) Capital and other equities

As of December 31, 2020 and 2019, the Company's authorized common stocks were consisting of 200,000 thousand shares with a par value of \$10 New Taiwan dollars per share amounted \$2,000,000 of which 53,807 thousand shares and 54,351 thousand shares, respectively, were issued. All issued shares were paid up upon issuance.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(i) Ordinary shares

Reconciliation of shares outstanding for 2020 and 2019 were as follows:

Unit: in thousand shares

	Common stock	
	2020	2019
Balance on January 1	54,351	52,479
Issuance of new restricted employee shares	-	1,880
Cancellation of new restricted employee shares	(544)	(8)
Balance on December 31	53,807	54,351

544 thousand and 8 thousand shares of employee restricted shares were repurchased in 2020 and 2019 as certain employees of the Company did not meet the vesting requirements, and the cancellation procedure had been completed.

(ii) Capital surplus

The balances of capital surplus were as follows:

	December 31, 2020	December 31, 2019
Additional paid-in capital	\$ 20,986	20,986
Restricted employee shares	(1,603)	(2,256)
Employee stock options-expired	5,343	5,343
Donation from shareholders	1,427	1,257
Changes in equity of associates	3,169	-
	\$ 29,322	25,330

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

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

The Company's Articles 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.

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and does not qualified for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. The balances of special reserve as of December 31, 2020 and 2019 are both \$79,510.

3) Earnings distribution

Based on the resolutions made during the annual stockholders' meeting held on June 17, 2020, and June 19, 2019, respectively, there are no earnings could be distributed in 2019 and 2018, respectively.

(iv) 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 thousand shares each, totaling 3,000 thousand treasury shares, to be converted into employee stock options. As of September 30, 2019, a total of 2,760 treasury shares, which had been repurchased, have yet to be converted or cancelled.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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Movement of treasury share was as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Share (thousands)</u>	<u>Amount</u>	<u>Share (thousands)</u>	<u>Amount</u>
Balance at period beginning	2,760	\$ 24,831	-	-
Repurchase	-	-	2,760	24,831
Balance at period ended	<u>2,760</u>	<u>\$ 24,831</u>	<u>2,760</u>	<u>24,831</u>

Pursuant to the Securities and Exchange Act requirements as stated above, the number of treasury shares purchased should not exceed 10% of all shares outstanding. Also the value of the repurchased shares should not exceed the sum of the Company's 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.

- (q) Share-based payment
 - (i) Restricted stocks for employees

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

1,370 thousand shares and 126 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.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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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 participate 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 share 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 Company repurchased all the unvested shares at the issue price, and cancelled the shares on November 15, 2019.

On June 13, 2018, the Company's shareholders 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 FSC. On November 7, 2018, the Board of Directors decided to issue the restricted shares on an installment basis. The Company issued the first restricted shares of 1,880 thousand shares, and the effective date was 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 participate 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.

On June 17, 2020, the Company's shareholders decided to award 1,200 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 FSC. On November 4, 2020, the Board of Directors decided to issue all the restricted shares. The the effective date was January 11, 2021.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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The information of the Company's restricted stock was as follows:

	Unit: in thousand shares	
	<u>2020</u>	<u>2019</u>
Outstanding units on January 1	1,880	8
Granted during the year	-	1,880
Forfeited during the year	<u>(544)</u>	<u>(8)</u>
Outstanding units on December 31	<u><u>1,336</u></u>	<u><u>1,880</u></u>

As of December 31, 2020 and 2019, the unearned employee compensation balances were \$3,674 and \$8,686, respectively. A total of 544 thousand employee restricted shares was retrieved and cancelled due to failure or loss of qualifications to meet the vesting requirements for the year ended December 31, 2020. The effective date of capital reduction was March 18, 2020, and the related registration procedures have been completed.

The expenses incurred by the Company for employee restricted shares were \$225 and \$7,797 for the years ended December 31, 2020 and 2019, respectively.

(ii) Employee stock options

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

	<u>2019</u>	
	<u>Shares</u>	<u>Weighted-</u>
	<u>(in thousands)</u>	<u>average</u>
		<u>exercise price</u>
		<u>(NT dollars)</u>
Outstanding shares on January 1	1,850	\$ 10.00
Exercised during the year	-	-
Forfeited during the year	<u>(1,850)</u>	-
Outstanding shares on December 31	<u>-</u>	10.00
Exercisable shares on December 31	<u><u>1,850</u></u>	-

All the employee stock options were forfeited on November 15, 2019.

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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The issuance terms of the stock options are as follows:

- 1) Exercise price: NT\$10 per share.
- 2) Exercisable duration: The employees who received stock options that exceed 2 years can exercise a specific percentage in each period as below. The exercisable duration of the options is 4 years. It is not allowed to be transferred, pledged, gifted, or disposed in any other means except for inheritance. After the expiration date, the Company will retire the unexercised options and the employees can no longer exercise their rights.

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

- 3) Exercise method: The Company will issue new shares when the options are exercised. According to Company Act, Article 161, Paragraph 1, the registration of capital amount change should be made after the issuance of shares.

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

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

- (r) Losses per share

Basic losses per share for the years ended December 31, 2020 and 2019 were computed as follows:

	2020	2019
Basic losses per share		
Net loss	\$ <u>(38,233)</u>	<u>(112,809)</u>
Weighted-average number of outstanding shares (in thousands)	<u>49,711</u>	<u>51,230</u>
Basic losses per share (dollars)	\$ <u>(0.77)</u>	<u>(2.20)</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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(s) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2020</u>	<u>2019</u>
Primary geographical markets:		
Netherlands	\$ 71,165	103,401
Germany	153,905	167,263
United States	70,767	53,683
Other	<u>243,154</u>	<u>273,218</u>
	<u>\$ 538,991</u>	<u>597,565</u>
Major products / services lines:		
LED monitors	\$ 517,214	580,037
Medical equipment	2,442	5,431
Other accessories	14,236	8,884
Rental revenues	<u>5,099</u>	<u>3,213</u>
	<u>\$ 538,991</u>	<u>597,565</u>

(ii) Contract balances

- 1) For details on notes and accounts receivable and allowance for impairment, please refer to note 6(c).
- 2) Contract liabilities

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>January 1, 2019</u>
Contract liabilities (Unearned sales revenue)	<u>\$ 154</u>	<u>671</u>	<u>664</u>

The amount of revenue recognized for the years ended December 31, 2020 and 2019, that included in the contract liability balance at the beginning of the periods were \$671 and \$664, respectively.

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

(t) Employees compensation and directors' and supervisors' remuneration

According to the Company's Articles of Incorporation 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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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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Due to loss before tax for the years ended December 31, 2020 and 2019, no employees compensation and directors' and supervisors' remuneration was recognized.

(u) Financial Instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration to credit risk

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

3) Receivables and debt securities

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

Other financial assets at amortized cost includes cash and cash equivalents, other receivables, and guaranteed deposits, are considered to have low risk, and thus, the impairment provision recognized during the period is limited to 12 months expected losses.

(ii) Liquidity Risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
December 31, 2020				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 145,480	(145,480)	(145,480)	-
Notes and accounts payable	47,550	(47,550)	(47,550)	-
Lease liabilities (including current and non-current)	16,451	(16,881)	(6,281)	(10,600)
Other payables	56,207	(56,207)	(56,207)	-
Guarantee deposits	891	(891)	-	(891)
	<u>\$ 266,579</u>	<u>(267,009)</u>	<u>(255,518)</u>	<u>(11,491)</u>

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>Over 1 years</u>
December 31, 2019				
Non-derivative financial liabilities:				
Short-term borrowings	\$ 174,032	(174,032)	(174,032)	-
Notes and accounts payable	70,241	(70,241)	(70,241)	-
Lease liabilities (including current and non-current)	23,853	(24,588)	(9,050)	(15,538)
Other payables	52,135	(52,135)	(52,135)	-
Guarantee deposits	891	(891)	-	(891)
	<u>\$ 321,152</u>	<u>(321,887)</u>	<u>(305,458)</u>	<u>(16,429)</u>

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

(iii) Market risk

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

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

	<u>December 31, 2020</u>			<u>December 31, 2019</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
Financial assets						
Monetary items						
USD	\$ 752	USD/NTD =28.48	21,415	1,364	USD/NTD =29.98	40,881
USD	41	USD/EUR =1.2296	1,180	55	USD/EUR =1.1204	1,662
Financial liabilities						
Monetary items						
USD	1,213	USD/NTD =28.48	34,544	1,862	USD/NTD =29.98	55,808
USD	7	USD/EUR =1.2296	201	-	USD/EUR =1.1204	-

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of 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, under other conditions remain the same, profit before tax for the years ended 2020 and 2019 would have been affected as follows:

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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	<u>December 31, 2020</u>	<u>December 31, 2019</u>
USD (against NTD)		
Appreciate 5%	\$ (656)	(746)
Depreciate 5%	656	746
USD (against EUR)		
Appreciate 5%	49	83
Depreciate 5%	(49)	(83)

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

3) Foreign exchange gains and losses on monetary items

As the Group deals in diverse foreign currencies, gains and losses on foreign exchange were summarized as a single amount for disclosure. For the years ended December 31, 2020 and 2019, the foreign exchange losses, including realized and unrealized ones, amounted to \$1,371 and \$2,551, respectively.

(iv) Interest rate analysis

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Variable rate instruments (carrying amount):		
Financial assets	\$ 89,410	56,463
Financial liabilities	(145,480)	(174,032)

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 \$140 and \$294 for the years ended December 31, 2020 and 2019, which would mainly result from the bank savings and short-term borrowings with variable interest rates at the reporting date.

(v) Fair value of financial instruments

1) Fair value hierarchy

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

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

- a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- c) Level 3: inputs for the assets or liabilities 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 :

	December 31, 2020				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
Mandatorily designated at fair value through profit or loss	\$ 6,441	-	-	6,441	6,441
Financial assets measured at amortized cost:					
Cash and cash equivalents	115,187	-	-	-	-
Notes and accounts receivable	55,051	-	-	-	-
Other receivables	696	-	-	-	-
Restricted deposits (recognized as other non-current assets)	326	-	-	-	-
Guaranteed deposits (recognized as other non-current assets)	1,111	-	-	-	-
	<u>172,371</u>				
	<u>\$ 178,812</u>				
Financial liabilities measured at amortized cost:					
Short-term borrowing	145,480	-	-	-	-
Notes and accounts payable	47,550	-	-	-	-
Lease liabilities (current and non-current)	16,451	-	-	-	-
Other payables	56,207	-	-	-	-
Guaranteed deposits	891	-	-	-	-
	<u>\$ 266,579</u>				

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	December 31, 2019				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss:					
Mandatorily designated at fair value through profit or loss	\$ <u>10,000</u>	-	-	10,000	10,000
Financial assets measured at amortized cost:					
Cash and cash equivalents	75,792	-	-	-	-
Notes and accounts receivable	61,636	-	-	-	-
Other receivables	126	-	-	-	-
Restricted deposits (recorded under other current assets)	<u>326</u>	-	-	-	-
	<u>137,880</u>				
	<u>\$ 147,880</u>				
Financial liabilities measured at amortized cost:					
Short-term borrowing	\$ 174,032	-	-	-	-
Notes and accounts payable	70,241	-	-	-	-
Lease liabilities	23,853	-	-	-	-
Other payables	52,135	-	-	-	-
Guaranteed deposits	<u>891</u>	-	-	-	-
	<u>\$ 321,152</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 from active market as the fair value if it has the public quoted price from active market.

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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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 such as the discounted cash flow or option pricing models. Fair value of forward currency exchange is usually determined by using the forward currency rate.

- 4) There was no transfer among fair value hierarchies for the years ended December 31, 2020 and 2019.
- 5) Reconciliation of level 3 financial assets

	Non derivative mandatorily measured at fair value through profit or loss
Balance on January 1, 2020	\$ 10,000
Total gains or losses recognized :	
In profit or loss	(3,559)
Purchased	10,000
Transfers out of level 3	<u>(10,000)</u>
Balance on December 31, 2020	<u><u>\$ 6,441</u></u>
Balance on January 1, 2019	\$ -
Purchased	<u>10,000</u>
Balance on December 31, 2019	<u><u>\$ 10,000</u></u>

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

The Group's financial instruments that use Level 3 inputs to measure the fair value include "financial assets measured at fair value through profit or loss – convertible bonds".

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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 measured at fair value through profit or loss – convertible bonds	Option Pricing Model-Formula Method	Discounted rate in lack of marketability as of December 31, 2020 was 29.29%	The higher the lack of marketability discount rate is, the lower the fair value will be.
"	Revenue method (Discounted Cash Flow Method)	Discounted rate in lack of market liquidity as of December 31, 2019 was 35%	The higher the discounted rate is, the lower the fair value will be.

(v) Financial risk management

(i) Briefings

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

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

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

(ii) Structure of risk management

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

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

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(iii) Credit risk

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

1) Accounts receivable and other receivables

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

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

2) Investment

The exposure to credit risk for the bank deposits and other financial instruments is measured and monitored by the Group's finance department. The Group deposits the cash in different financial institutions for the purpose of controlling the credit risk in each financial institution. Therefore, there is no significant credit risk of bank deposits.

3) Guarantees

Please refer to note 13(a) for the Company provide financial guarantees to its subsidiaries as of December 31, 2020.

(iv) Liquidity risk

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

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

The loans and borrowings from the bank forms an important source of liquidity for the Group. As of December 31, 2020 and 2019 the unused short-term bank facilities were \$297,176 and \$270,149, respectively.

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(v) Market risk

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

1) Currency risk

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

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

2) Interest rate risk

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

(w) 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.

As of December 31, 2020 and 2019, the liability ratios were as follows:

	December 31, 2020	December 31, 2019
Total liabilities	\$ 271,818	326,164
Total assets	691,393	772,485
Liability ratio	39 %	42 %

As of December 31, 2020, there were no changes in the Group's approach of capital management.

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

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

(i) The Group's investing and financing activity which did not affect the current cash flow for the years ended December 31, 2020 and 2019 were as follows:

- 1) The acquisition of right-of-use assets by lease, please refer to note 6(g).
- 2) As of December 31, 2020 and 2019, the inventory was transferred to the equipment amounting to \$87 and \$0, respectively.
- 3) For conversion of convertible bonds to ordinary shares, invested by the Company, please refer to note 6(b) and (e).

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

	January 1, 2020	Cash flows	Non-cash changes		December 31, 2020
			Additions	Foreign exchange movement	
Short-term borrowings	\$ 174,032	(28,552)	-	-	145,480
Guaranteed deposits	891	-	-	-	891
Lease liabilities	23,853	(8,967)	1,037	528	16,451
Total liabilities from financing activities	<u>\$ 198,776</u>	<u>(37,519)</u>	<u>1,037</u>	<u>528</u>	<u>162,822</u>

	January 1, 2019	Cash flows	Non-cash changes		December 31, 2019
			Additions	Foreign exchange movement	
Short-term borrowings	\$ 117,448	56,584	-	-	174,032
Guaranteed deposits	945	(54)	-	-	891
Lease liabilities	33,689	(9,229)	530	(1,137)	23,853
Total liabilities from financing activities	<u>\$ 152,082</u>	<u>47,301</u>	<u>530</u>	<u>(1,137)</u>	<u>198,776</u>

(7) Related-party transactions:

(a) Names and relationship with related parties

The followings are entities that have had transactions with the Group during the periods covered in the consolidated financial statements.

Name of related party	Relationship with the Group
Taiwan Biophotonic Corporation (tBPC)	An associate

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

(b) Significant transactions with related parties

(i) Acquisitions of financial assets

The 100 units of convertible bonds issued by tBPC and acquired by the Group each amounted to \$10,000 in June 2020 and October 2019, respectively, which were classified as financial assets measured at fair value through profit or loss. Please refer to note 6(b).

(ii) Investment of convertible bonds converting to ordinary shares

The Group exercised convertible bonds of tBPC in October 2020, the transferred price was NTD\$13 per share, the book value was \$10,800 (including interest receivable of \$800), and 831 thousand shares were acquired after converting, which were classified as investment accounted for using the equity method.

(c) Key management personnel transactions

Key management personnel compensation comprised :

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 16,299	17,298
Post-employment benefits	649	593
	<u>\$ 16,948</u>	<u>17,891</u>

(8) Pledged assets:

The carrying amounts of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Land and buildings	Guarantee for short-term loans and credit line	\$ 117,310	118,325
Investment property	//	162,467	163,650
Restricted deposits	Warranty guarantee	326	326
		<u>\$ 280,103</u>	<u>282,301</u>

(9) Significant commitments and contingencies:

As of December 31, 2020 and 2019, the unused balance of the Group's letters of credit amounted to \$6,353 and \$4,818, respectively.

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

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

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

By function By item	2020			2019		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	-	99,058	99,058	-	110,446	110,446
Labor and health insurance	-	12,174	12,174	-	14,108	14,108
Pension	-	4,089	4,089	-	4,028	4,028
Others	-	4,034	4,034	-	3,746	3,746
Depreciation	1,183	11,403	12,586	1,183	12,088	13,271
Amortization	473	948	1,421	230	1,086	1,316

Note: The depreciation for the years ended December 31, 2020 and 2019 included the depreciation of investment property both amounted to \$1,183.

(13) Other disclosures 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” of the Group for the year ended December 31, 2020:

- (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 of guarantees and endorsements during the period	Balance of guarantees and endorsements as of reporting date	Actual usage amount during the period	Amount of property pledged for guarantees and endorsements	Ratio of accumulated amounts of guarantees and endorsements to net worth of the latest financial statements	Maximum amount of guarantees and endorsements	Parent company endorsements/ guarantees to third parties on behalf of subsidiary	Subsidiary endorsements/ guarantees to third parties on behalf of parent company	Endorsements/ guarantees to third parties on behalf of companies in Mainland China
		Name	Relationship with the Company										
0	The Company	AG Neovo B.V	100% owned subsidiary	419,575	150,000	150,000	-	-	35.75 %	419,575	Yes	No	No
0	"	AG Neovo USA	"	419,575	30,000	30,000	28,480	-	7.15 %	419,575	Yes	No	No

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

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ASSOCIATED INDUSTRIES CHINA, INC. AND SUBSIDIARIES
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- (iii) Information regarding securities held at the reporting date (excluding subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars and shares (units))

Company holding securities	Security type and name	Relationship with the Company	Account	December 31, 2020				Highest balance during the year		Remark
				Shares/Units	Carrying value	Percentage of ownership	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company	IRONYUN INCORPORATED	-	Financial assets measured at fair value through other comprehensive income -- non-current	6,025	-	6.79 %	-	6,025	6.79 %	Note
"	Convertible bonds (tBPC)	-	Financial assets measured at fair value through profit or loss-non-current	100	6,441	- %	6,441	200	- %	

Note: Stocks are comprised of 5,512 thousand preferred shares and 513 thousand common shares at the reporting date.

- (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)	(273,148)	(91) %	90 days net from date of invoice	The price is not comparable with that of the general customers.	90 days net from date of invoice; actual payments would depend on the capital demand.	Note 1	-%	Note 2

Note 1 : As of December 31, 2020, the amount of unearned sales revenue was \$103,350.

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

- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None.
- (ix) Trading in derivative instruments:

As of December 31, 2020, the Group did not have any unsettled derivative financial instruments.

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

- (x) Significant transactions and business relationship between the parent company and its subsidiaries:

(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 revenues	273,148	The price is marked up based on the cost; and the payment terms depends on the capital demand.	50.68 %
0	"	"	1	Unearned sales revenue	103,350	"	14.95 %

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 year ended December 31, 2020 (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 December 31, 2020			Highest balance during the year		Net income (loss) of the Investee (Note 2)	Investment income (loss) recognized by the investor (Note 2)	Remark
				December 31, 2020 (Note 1)	December 31, 2019 (Note 1)	Shares	Percentage of ownership	Carrying value (Note 1)	Shares	Percentage of ownership			
The Company	AG Neovo International (formerly named as GMF)	British Virgin Islands	Investment	313,522	313,522	0.7	100 %	5,223	0.7	100 %	(6,272)	(6,272)	Note 3, 4
"	AG Neovo B.V	Netherlands	Sales of LCD monitors	187,013	187,013	4.8	100 %	197,638	4.8	100 %	1,516	1,516	Note 3
"	AG Neovo Investment	British Virgin Islands	Investment	14,796	14,796	0.5	100 %	8,251	0.5	100 %	(655)	(655)	"
"	Taiwan Biophotonic Corporation	Taiwan	Manufacturing and sale of medical equipment	92,327	81,527	2,524	35 %	24,881	2,524	35 %	(16,876)	(4,808)	"
AG Neovo International (formerly named as GMF)	AG Neovo International	British Virgin Islands	Investment	- (US \$-)	14,390 (US\$ 480)	-	-	- (US\$ -)	0.01	100 %	(7) (US\$ 7)	Recognized by shareholding percentage by AG Neovo International (formerly named as GMF)	Note 3, 4
"	AG Neovo USA	U.S.A.	Sales of LCD monitors and medical equipment	56,960 (US\$ 2,000)	56,960 (US\$ 2,000)	701	100 %	3,362 (US\$ 127)	701	100 %	(6,883) (US\$ 233)	"	"

Note1: The amounts in New Taiwan Dollars were translated at the exchange rates of USD28.48 at reporting date.

Note2: The amounts in New Taiwan Dollars were translated at the exchange rates of USD29.5354 based on the average exchange rate at reporting date.

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

Note4: The sub-subsidiary, AG Neovo International, had completed its liquidation procedures on April 30, 2020. Thereafter, the subsidiary, GMF, was renamed AG Neovo International on June 30, 2020.

- (c) Information on investment in mainland China:

- (i) The related information on investees in Mainland China:

(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, 2020 (Note 2)	Investment		Accumulated outflow of investment from Taiwan as of December 31, 2020 (Note 2)	Net income (loss) of the investee company (Note 3)	Percentage of ownership	Highest balance during the year		Investment income (loss) recognized (Note 3)	Carrying value as of December 31, 2020 (Note 2)	Accumulated remittance of earnings as of December 31, 2020
					Outflow	Inflow				Shares	Percentage of ownership			
AG Neovo (Shanghai)	Sales of LCD monitors	14,240 (US\$500)	Note 1	14,240 (US\$500)	-	-	14,240 (US\$500)	(645) (US\$22)	100%	-	100%	(645) (US\$22)	8,803 (US\$309)	-

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

(ii) Upper limit on investment in Mainland China:

(In Thousands of New Taiwan Dollars and foreign currencies)

Accumulated Investment in Mainland China as of December 31, 2020 (Notes 2 and 4)	Investment Amounts Authorized by Investment Commission, MOEA (Notes 2 and 4)	Upper Limit on Investment
114,945 (US\$4,036)	114,945 (US\$4,036)	251,745

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 USD28.48 at reporting date.

Note 3 : The amounts in New Taiwan Dollars were translated at the exchange rates of USD29.5354 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.

(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
Top Group Holdings, Ltd.		8,156,294	15.15 %
David Pi		3,335,541	6.19 %
Associated Industries China, Inc. (Treasury shares)		2,760,000	5.12 %

(14) Segment information:

(a) General Information

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

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

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

	2020					Total
	Europe	America	Taiwan	Others	Adjustment & Elimination	
Revenue						
Revenue from external customers	\$ 445,311	63,032	17,641	13,007	-	538,991
Revenue from segments	<u>10,378</u>	<u>760</u>	<u>281,429</u>	<u>8</u>	<u>(292,575)</u>	<u>-</u>
	<u>\$ 455,689</u>	<u>63,792</u>	<u>299,070</u>	<u>13,015</u>	<u>(292,575)</u>	<u>538,991</u>
Reportable segment profit (loss)	<u>\$ 1,635</u>	<u>(6,248)</u>	<u>(38,233)</u>	<u>(655)</u>	<u>5,411</u>	<u>(38,090)</u>
Reportable segment assets						<u>\$ 691,393</u>
Reportable segment liabilities						<u>\$ 271,818</u>

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

	2019					Total
	Europe	America	Taiwan	Others	Adjustment & Elimination	
Revenue						
Revenue from external customers	\$ 530,676	42,660	18,844	5,385	-	597,565
Revenue from segments	<u>14,468</u>	<u>250</u>	<u>329,201</u>	<u>-</u>	<u>(343,919)</u>	<u>-</u>
	<u>\$ 545,144</u>	<u>42,910</u>	<u>348,045</u>	<u>5,385</u>	<u>(343,919)</u>	<u>597,565</u>
Reportable segment profit (loss)	<u>\$ (1,290)</u>	<u>(11,059)</u>	<u>(112,809)</u>	<u>(3,998)</u>	<u>18,281</u>	<u>(110,875)</u>
Reportable segment assets						<u>\$ 772,485</u>
Reportable segment liabilities						<u>\$ 326,164</u>

(c) Production information

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

(d) Geographic information

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

Non-current assets:

<u>Country</u>	<u>2020</u>	<u>2019</u>
Taiwan	\$ 282,497	286,648
Others	<u>17,525</u>	<u>25,010</u>
	<u>\$ 300,022</u>	<u>311,658</u>

Non-currents assets included property, plant and equipment, investments property, intangible assets and other assets but don't include financial instruments and deferred tax assets.

(e) Information about major customers

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

<u>Customer</u>	<u>2020</u>	<u>2019</u>
A Company	\$ 63,573	78,506
B Company	<u>35,821</u>	<u>59,052</u>
	<u>\$ 99,394</u>	<u>137,558</u>