

Fortune Electric Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2019 and 2018**

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands)

ASSETS	September 30, 2019 (Reviewed)		December 31, 2018	September 30, 2018
	NT\$	US\$ (Note)	(Audited)	(Reviewed)
CURRENT ASSETS				
Cash	\$ 894,350	\$ 28,813	\$ 97,983	\$ 118,352
Financial assets at fair value through profit or loss - current	798	26	4,364	4,809
Financial assets at amortized cost - current	-	-	-	4,565
Contract assets	680,437	21,921	597,067	465,657
Notes receivable	56,878	1,833	30,382	67,878
Trade receivables from unrelated parties	2,121,023	68,332	2,102,158	2,365,702
Current tax assets	8,567	276	9,310	26
Inventories, net	2,868,094	92,400	2,004,575	2,084,524
Prepayments	135,463	4,364	72,246	70,644
Other current assets	234,080	7,541	121,082	134,177
Total current assets	6,999,690	225,506	5,039,167	5,316,334
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current	263	9	-	-
Financial assets at fair value through other comprehensive income	13,141	423	43,707	16,889
Financial assets at amortized cost - non-current	1,272	41	1,272	1,272
Investments accounted for using equity method	1,020	33	313,162	290,962
Property, plant and equipment	2,067,359	66,603	1,317,950	1,335,239
Right-of-use assets	110,595	3,563	-	-
Intangible assets	27,821	896	20,716	16,429
Deferred tax assets	47,814	1,540	58,529	75,721
Prepayments for equipment	2,671	86	5,680	6,105
Refundable deposits	7,261	234	4,166	4,036
Long-term prepayment for lease	-	-	22,509	22,496
Total non-current assets	2,279,217	73,428	1,787,691	1,769,149
TOTAL	\$ 9,278,907	\$ 298,934	\$ 6,826,858	\$ 7,085,483
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	\$ 2,088,495	\$ 67,284	\$ 361,114	\$ 872,582
Financial liabilities at fair value through profit or loss - current	954	31	107	446
Derivative financial liabilities for hedging	424	14	-	79
Contract liabilities	806,990	25,998	542,592	432,696
Trade payables to unrelated parties	1,791,131	57,704	1,587,175	1,630,442
Trade payables to related parties	1,119	36	32,340	2,121
Other payable	216,852	6,986	148,080	122,533
Current tax liabilities	42,492	1,369	131	128
Provisions	5,659	182	9,834	31,358
Lease liabilities - current	10,139	327	-	-
Other current liabilities	75,785	2,442	34,854	72,814
Total current liabilities	5,040,040	162,373	2,716,227	3,165,199
NON-CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - non-current	-	-	-	90
Long-term borrowings	741,800	23,898	741,800	741,800
Deferred tax liabilities	64,132	2,066	67,728	65,653
Lease liabilities - non-current	78,074	2,515	-	-
Net defined benefit liabilities	182,060	5,866	222,775	214,999
Guarantee deposit received	4,253	137	15,132	13,452
Total non-current liabilities	1,070,319	34,482	1,047,435	1,035,994
Total liabilities	6,110,359	196,855	3,763,662	4,201,193
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	2,610,585	84,104	2,610,585	2,610,585
Capital surplus	1,251	40	1,251	1,179
Retained earnings				
Legal reserve	360,334	11,609	354,326	354,326
Special reserve	11,273	363	15,251	15,251
Unappropriated earnings	232,929	7,504	97,442	(56,306)
Total retained earnings	604,536	19,476	467,019	313,271
Other equity				
Exchange differences on translating foreign operations	(25,009)	(806)	(19,448)	(21,422)
Unrealized gain or loss on financial assets at fair value through other comprehensive income	(22,391)	(721)	8,175	(18,644)
Cash flow hedges	(424)	(14)	-	(79)
Total other equity	(47,824)	(1,541)	(11,273)	(40,145)
Total equity attributable to owners of the Company	3,168,548	102,079	3,067,582	2,884,890
NON-CONTROLLING INTERESTS				
Total equity	3,168,548	102,079	3,063,196	2,884,290
TOTAL	\$ 9,278,907	\$ 298,934	\$ 6,826,858	\$ 7,085,483

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT\$31.04 to US\$1.00 at September 30, 2019, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated November 11, 2019)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands, Except Earnings (Loss) Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019		2018	2019		2018
	NT\$	US\$ (Note)	NT\$	NT\$	US\$ (Note)	NT\$
OPERATING REVENUE						
Sales	\$ 1,328,929	\$ 42,813	\$ 1,635,550	\$ 3,552,807	\$ 114,459	\$ 3,888,203
Construction revenue	<u>74,548</u>	<u>2,402</u>	<u>100,326</u>	<u>565,649</u>	<u>18,223</u>	<u>296,715</u>
Total operating revenue	<u>1,403,477</u>	<u>45,215</u>	<u>1,735,876</u>	<u>4,118,456</u>	<u>132,682</u>	<u>4,184,918</u>
OPERATING COSTS						
Cost of goods sold	1,058,036	34,086	1,371,758	2,844,907	91,653	3,227,589
Construction cost	<u>80,527</u>	<u>2,594</u>	<u>126,998</u>	<u>616,419</u>	<u>19,859</u>	<u>614,280</u>
Total operating costs	<u>1,138,563</u>	<u>36,680</u>	<u>1,498,756</u>	<u>3,461,326</u>	<u>111,512</u>	<u>3,841,869</u>
GROSS PROFIT	<u>264,914</u>	<u>8,535</u>	<u>237,120</u>	<u>657,130</u>	<u>21,170</u>	<u>343,049</u>
OPERATING EXPENSES						
Selling and marketing expenses	101,312	3,264	124,117	347,252	11,187	309,203
General and administrative expenses	33,373	1,075	27,933	126,084	4,062	83,277
Research and development expenses	<u>27,084</u>	<u>873</u>	<u>21,274</u>	<u>87,458</u>	<u>2,817</u>	<u>64,034</u>
Total operating expenses	<u>161,769</u>	<u>5,212</u>	<u>173,324</u>	<u>560,794</u>	<u>18,066</u>	<u>456,514</u>
PROFIT (LOSS) FROM OPERATIONS	<u>103,145</u>	<u>3,323</u>	<u>63,796</u>	<u>96,336</u>	<u>3,104</u>	<u>(113,465)</u>
NON-OPERATING INCOME AND EXPENSES						
Other income	5,822	187	4,566	138,781	4,471	73,024
Gain from bargain purchase - acquisition of subsidiaries	-	-	-	209,682	6,755	-
Other gains and losses	14,543	469	(861)	(117,991)	(3,801)	7,264
Share of profit or loss of associates	(171)	(6)	(20,515)	(29,732)	(958)	(34,454)
Finance costs	<u>(9,163)</u>	<u>(295)</u>	<u>(7,056)</u>	<u>(25,940)</u>	<u>(836)</u>	<u>(21,055)</u>
Total non-operating income and expenses	<u>11,031</u>	<u>355</u>	<u>(23,866)</u>	<u>174,800</u>	<u>5,631</u>	<u>24,779</u>
PROFIT (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	114,176	3,678	39,930	271,136	8,735	(88,686)
INCOME TAX EXPENSE (BENEFIT)	<u>(21,787)</u>	<u>(702)</u>	<u>14,044</u>	<u>50,237</u>	<u>1,618</u>	<u>(4,586)</u>
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	135,963	4,380	25,886	220,899	7,117	(84,100)
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	<u>3</u>	<u>-</u>	<u>(7,151)</u>	<u>(610)</u>	<u>(20)</u>	<u>(20,123)</u>
NET PROFIT (LOSS) FOR THE PERIOD	<u>135,966</u>	<u>4,380</u>	<u>18,735</u>	<u>220,289</u>	<u>7,097</u>	<u>(104,223)</u>
OTHER COMPREHENSIVE INCOME AND LOSS						
Items that may be not be reclassified subsequently to profit or loss:						
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	240	8	(1,148)	(30,566)	(985)	(21,069)
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,744</u>
	<u>240</u>	<u>8</u>	<u>(1,148)</u>	<u>(30,566)</u>	<u>(985)</u>	<u>(18,325)</u>

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands, Except Earnings (Loss) Per Share) (Reviewed, Not Audited)

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2019		2018	2019		2018
	NT\$	US\$ (Note)	NT\$	NT\$	US\$ (Note)	NT\$
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	\$ (8,416)	\$ (271)	\$ (8,122)	\$ (5,674)	\$ (183)	\$ (6,169)
Share of the other comprehensive income of associates accounted for using the equity method	(1)	-	(29)	45	1	16
Cash flow hedges	<u>(251)</u>	<u>(8)</u>	<u>(1,634)</u>	<u>(424)</u>	<u>(13)</u>	<u>(62)</u>
	<u>(8,668)</u>	<u>(279)</u>	<u>(9,785)</u>	<u>(6,053)</u>	<u>(195)</u>	<u>(6,215)</u>
Total other comprehensive income and loss	<u>(8,428)</u>	<u>(271)</u>	<u>(10,933)</u>	<u>(36,619)</u>	<u>(1,180)</u>	<u>(24,540)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	<u>\$ 127,538</u>	<u>\$ 4,109</u>	<u>\$ 7,802</u>	<u>\$ 183,670</u>	<u>\$ 5,917</u>	<u>\$ (128,763)</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:						
Owners of the Company	\$ 134,958	\$ 4,348	\$ 19,276	\$ 215,835	\$ 6,953	\$ (102,247)
Non-controlling interests	<u>1,008</u>	<u>32</u>	<u>(541)</u>	<u>4,454</u>	<u>144</u>	<u>(1,976)</u>
	<u>\$ 135,966</u>	<u>\$ 4,380</u>	<u>\$ 18,735</u>	<u>\$ 220,289</u>	<u>\$ 7,097</u>	<u>\$ (104,223)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:						
Owners of the Company	\$ 126,518	\$ 4,076	\$ 8,336	\$ 179,284	\$ 5,776	\$ (126,822)
Non-controlling interests	<u>1,020</u>	<u>33</u>	<u>(534)</u>	<u>4,386</u>	<u>141</u>	<u>(1,941)</u>
	<u>\$ 127,538</u>	<u>\$ 4,109</u>	<u>\$ 7,802</u>	<u>\$ 183,670</u>	<u>\$ 5,917</u>	<u>\$ (128,763)</u>
EARNINGS (LOSS) PER SHARE						
From continuing and discontinued operations						
Basic	<u>\$0.52</u>	<u>\$0.02</u>	<u>\$0.08</u>	<u>\$0.83</u>	<u>\$0.03</u>	<u>\$(0.39)</u>
Diluted	<u>\$0.52</u>	<u>\$0.02</u>	<u>\$0.08</u>	<u>\$0.83</u>	<u>\$0.03</u>	<u>\$(0.39)</u>
EARNINGS (LOSS) PER SHARE						
From continuing operations						
Basic	<u>\$0.52</u>	<u>\$0.02</u>	<u>\$0.11</u>	<u>\$0.83</u>	<u>\$0.03</u>	<u>\$(0.31)</u>
Diluted	<u>\$0.52</u>	<u>\$0.02</u>	<u>\$0.11</u>	<u>\$0.83</u>	<u>\$0.03</u>	<u>\$(0.31)</u>

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(With Deloitte & Touche review report dated November 11, 2019)

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company						Other Equity						Total Equity
	Share Capital	Capital Surplus	Retained Earnings			Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Total	Controlling Interests	Non-controlling Interests	
			Legal Reserve	Special Reserve	Unappropriated Earnings								
BALANCE AT JANUARY 1, 2018	\$ 2,610,585	\$ 1,179	\$ 345,050	\$ 11,231	\$ 160,916	\$ 517,197	\$ (15,234)	\$ -	\$ (17)	\$ (15,251)	\$ 3,113,710	\$ 1,341	\$ 3,115,051
Effect of retrospective application	-	-	-	-	-	-	-	2,425	-	2,425	2,425	-	2,425
BALANCE AT JANUARY 1, 2018 AS RESTATED	<u>2,610,585</u>	<u>1,179</u>	<u>345,050</u>	<u>11,231</u>	<u>160,916</u>	<u>517,197</u>	<u>(15,234)</u>	<u>2,425</u>	<u>(17)</u>	<u>(12,826)</u>	<u>3,116,135</u>	<u>1,341</u>	<u>3,117,476</u>
Appropriation of 2017 earnings													
Legal reserve	-	-	9,276	-	(9,276)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	4,020	(4,020)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(104,423)	(104,423)	-	-	-	-	(104,423)	-	(104,423)
	-	-	<u>9,276</u>	<u>4,020</u>	<u>(117,719)</u>	<u>(104,423)</u>	-	-	-	-	<u>(104,423)</u>	-	<u>(104,423)</u>
Net loss for the nine months ended September 30, 2018	-	-	-	-	(102,247)	(102,247)	-	-	-	-	(102,247)	(1,976)	(104,223)
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	2,744	2,744	(6,188)	(21,069)	(62)	(27,319)	(24,575)	35	(24,540)
Total comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	-	(99,503)	(99,503)	(6,188)	(21,069)	(62)	(27,319)	(126,822)	(1,941)	(128,763)
BALANCE SEPTEMBER 30, 2018	<u>\$ 2,610,585</u>	<u>\$ 1,179</u>	<u>\$ 354,326</u>	<u>\$ 15,251</u>	<u>\$ (56,306)</u>	<u>\$ 313,271</u>	<u>\$ (21,422)</u>	<u>\$ (18,644)</u>	<u>\$ (79)</u>	<u>\$ (40,145)</u>	<u>\$ 2,884,890</u>	<u>\$ (600)</u>	<u>\$ 2,884,290</u>
BALANCE AT JANUARY 1, 2019	<u>\$ 2,610,585</u>	<u>\$ 1,251</u>	<u>\$ 354,326</u>	<u>\$ 15,251</u>	<u>\$ 97,442</u>	<u>\$ 467,019</u>	<u>\$ (19,448)</u>	<u>\$ 8,175</u>	<u>\$ -</u>	<u>\$ (11,273)</u>	<u>\$ 3,067,582</u>	<u>\$ (4,386)</u>	<u>\$ 3,063,196</u>
Appropriation 2018 earnings													
Legal reserve	-	-	6,008	-	(6,008)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(3,978)	3,978	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(78,318)	(78,318)	-	-	-	-	(78,318)	-	(78,318)
	-	-	<u>6,008</u>	<u>(3,978)</u>	<u>(80,348)</u>	<u>(78,318)</u>	-	-	-	-	<u>(78,318)</u>	-	<u>(78,318)</u>
Net income for the nine months ended September 30, 2019	-	-	-	-	215,835	215,835	-	-	-	-	215,835	4,454	220,289
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	-	(5,561)	(30,566)	(424)	(36,551)	(36,551)	(68)	(36,619)
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	215,835	215,835	(5,561)	(30,566)	(424)	(36,551)	179,284	4,386	183,670
BALANCE AT SEPTEMBER 30, 2019	<u>\$ 2,610,585</u>	<u>\$ 1,251</u>	<u>\$ 360,334</u>	<u>\$ 11,273</u>	<u>\$ 232,929</u>	<u>\$ 604,536</u>	<u>\$ (25,009)</u>	<u>\$ (22,391)</u>	<u>\$ (424)</u>	<u>\$ (47,824)</u>	<u>\$ 3,168,548</u>	<u>\$ -</u>	<u>\$ 3,168,548</u>
BALANCE AT SEPTEMBER 30, 2019 (IN U.S. DOLLARS)	<u>\$ 84,104</u>	<u>\$ 40</u>	<u>\$ 11,609</u>	<u>\$ 363</u>	<u>\$ 7,504</u>	<u>\$ 19,476</u>	<u>\$ (806)</u>	<u>\$ (721)</u>	<u>\$ (14)</u>	<u>\$ (1,541)</u>	<u>\$ 102,079</u>	<u>\$ -</u>	<u>\$ 102,079</u>

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(With Deloitte & Touche review report dated November 11, 2019)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30		
	2019		2018
	NT\$	US\$ (Note)	NT\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax from continuing operations	\$ 271,136	\$ 8,735	\$ (88,686)
Loss before income tax from discontinued operations	(610)	(20)	(20,123)
Income (loss) before income tax	270,526	8,715	(108,809)
Adjustments for:			
Depreciation expenses	83,691	2,696	60,243
Amortization expenses	7,150	230	4,562
Expected credit loss recognized (reversed) on trade receivables	2,747	88	(1,788)
Net gain on financial instruments at fair value through profit or loss	(107)	(3)	(4,273)
Finance costs	25,943	836	21,058
Interest income	(602)	(19)	(738)
Share of loss of associates	29,732	958	34,454
Loss on disposal of property, plant and equipment	24	1	35
Gain on disposal of investments	(2,562)	(83)	-
Loss on disposal of associates	142,666	4,596	-
Reversal of write-downs of inventories	(1,278)	(41)	248
Unrealized net loss on foreign currency exchange	1,524	49	6,530
Gain from bargain purchase	(209,682)	(6,755)	-
Prepayment for lease	-	-	506
Changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	4,257	137	(185)
Contract assets	(83,370)	(2,686)	76,980
Notes receivable	(26,495)	(853)	14,092
Trade receivables	98,263	3,166	266,956
Trade receivables from related parties	2,042	66	2,373
Inventories	(819,257)	(26,394)	(302,832)
Prepayments	(57,807)	(1,862)	(256)
Other current assets	(111,773)	(3,601)	(85,262)
Contract liabilities	264,782	8,530	139,010
Notes payable	-	-	(3,261)
Trade payables	188,730	6,080	124,682
Trade payables to related parties	(33,263)	(1,072)	1,815
Other payables	45,877	1,478	(72,341)
Provisions	(4,175)	(134)	(13,037)
Other current liabilities	41,030	1,322	34,599
Net defined benefit liabilities	(40,715)	(1,312)	(29,743)
Cash generated from (used in) operations	(182,102)	(5,867)	165,618
Interest received	602	19	738

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30		
	2019		2018
	NT\$	US\$ (Note)	NT\$
Interest paid	\$ (26,130)	\$ (842)	\$ (20,052)
Income tax paid	<u>(139)</u>	<u>(4)</u>	<u>(5,159)</u>
Net cash generated from (used in) operating activities	<u>(207,769)</u>	<u>(6,694)</u>	<u>141,145</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of financial assets at amortized cost	-	-	600
Net cash inflow on acquisition of subsidiaries	167,758	5,405	-
Payments for property, plant and equipment	(33,161)	(1,068)	(30,005)
Proceeds from disposal of property, plant and equipment	31	1	20
Decrease (increase) in refundable deposits	(74)	(2)	42
Payments for intangible assets	(7,162)	(231)	(11,255)
Decrease (increase) in prepayments for equipment	<u>(5,048)</u>	<u>(163)</u>	<u>2,166</u>
Net cash generated from (used in) investing activities	<u>122,344</u>	<u>3,942</u>	<u>(38,432)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings	984,387	31,713	4,651
Proceeds from (refund of) guarantee deposits received	(10,879)	(350)	10,135
Repayment of the principal portion of lease liabilities	(5,765)	(186)	-
Issue of cash dividends	<u>(78,318)</u>	<u>(2,523)</u>	<u>(104,423)</u>
Net cash generated from (used in) financing activities	<u>889,425</u>	<u>28,654</u>	<u>(89,637)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES			
	<u>(7,633)</u>	<u>(246)</u>	<u>(5,374)</u>
NET INCREASE IN CASH	796,367	25,656	7,702
CASH AT THE BEGINNING OF THE PERIOD	<u>97,983</u>	<u>3,157</u>	<u>110,650</u>
CASH AT THE END OF THE PERIOD	<u>\$ 894,350</u>	<u>\$ 28,813</u>	<u>\$ 118,352</u>

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT\$31.04 to US\$1.00 at September 30, 2019, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated November 11, 2019)

(Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (In Thousands of U.S. Dollars) (Reviewed, Not Audited)

1. GENERAL INFORMATION

Fortune Electric Co., Ltd. (the “Company”) was incorporated in the Republic of China (“ROC”) in August 1969. The Company mainly manufactures, processes and trades transformers, distribution panels, low voltage switch and substation equipment.

The Company’s shares have been listed on the Taiwan Stock Exchange (“TSE”) since April 1997.

For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in New Taiwan dollars since the Company’s stocks are listed on the Taiwan Stock Exchange.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on November 11, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the company and the entities controlled by the company’s (the “Group”) accounting policies:

- 1) IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights in China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.26%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

	NT\$
The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 6,466
Undiscounted amounts on January 1, 2019	\$ 6,466
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 6,183
Lease liabilities recognized on January 1, 2019	\$ 6,183

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019 (NT\$)	Adjustments Arising from Initial Application (NT\$)	Restated on January 1, 2019 (NT\$)
Prepayments for leases - current (included in other current assets)	\$ 680	\$ (680)	\$ -
Prepayments for leases - non-current	22,509	(22,509)	-
Right-of-use assets	<u>-</u>	<u>29,372</u>	<u>29,372</u>
Total effect on assets	<u>\$ 23,189</u>	<u>\$ 6,183</u>	<u>\$ 29,372</u>
Lease liabilities - current	\$ -	\$ 3,379	\$ 3,379
Lease liabilities - non-current	<u>-</u>	<u>2,804</u>	<u>2,804</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 6,183</u>	<u>\$ 6,183</u>

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority has full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

3) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Group applied the above amendments prospectively.

b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 2)

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

● Amendments to IFRS 3 “Definition of a Business”

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

Expect for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 9, IAS39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of above standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual consolidated financial statements.

- b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

- c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

Subsidiaries included in consolidated financial statements:

Investor	Investee	Main Business	% of Ownership			Remark
			September 30, 2019	December 31, 2018	September 30, 2018	
Fortune Electric Co., Ltd.	Power Energy International Ltd.	Investment Holding	100	100	100	
	Fortune Electric America Inc.	Agents business	100	100	100	
	Fortune Electric Extra High Voltage Co., Ltd. (Formerly Hitachi Fortune Transformer, Inc.)	Transformers manufacturing, machining and trading	100	40	40	1)
Power Energy International Ltd.	Fortune Electric (Wuhan) Ltd.	Transformers, capacitors, power distribution equipment manufacturing	100	100	100	
Fortune Electric (Wuhan) Ltd.	Wuhan Huarong Co., Ltd.	Production and sale of transformer tank, machining, mechanical and electrical products, metal surface corrosion treatment		60	60	2)
	Wuhan Fortune Trade Co., Ltd.	Trade business	100	100	100	

1) The Company originally owned 40% shares of Hitachi Fortune Transformer, Inc. On March 28, 2019, the board of directors signed the joint venture termination agreement with Hitachi, Ltd., which transferred their total 84,720 thousand shares of Hitachi Fortune Transformer, Inc. to the Company without compensation on March 30, 2019. After transferring, Hitachi Fortune Transformer, Inc. renamed as Fortune Electric Extra High Voltage Co., Ltd. on June 24, 2019.

2) On August 5, 2019, Wuhan Huarong Co., Ltd had been liquidated and completed the annulment of registration.

3) Subsidiaries included in consolidated financial statements, January 1 to September 30, 2019 and 2018 were based on the same period of unreviewed financial statements.

d. Other significant accounting policies

For the summary of other significant accounting policies, except for the following, please refer to the consolidated financial statements for the year ended December 31, 2018.

1) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition - related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the fair value of the acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

2) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, and the sale should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

When a subsidiary previously classified as held for sale no longer meets the criteria to be classified as such, it is measured at the carrying amount that would have been recognized had such interests not been classified as held for sale. The consolidated financial statements for the periods since classification as held for sale are amended accordingly.

3) Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

a) The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments from operating leases are recognized as income on a straight-line basis. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

b) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in the amounts expected to be payable under a residual value guarantee resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b) The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

4) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

5) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistently with the accounting for the transaction itself which gives rise to the tax consequence, and this is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2018.