Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2016 and 2015

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

ASSETS	June 30, 2016 (Reviewed) NT$	June 30, 2016 (Reviewed) US$ (Note)	December 31, 2015 (Audited) NT$	June 30, 2015 (Reviewed) NT$
CURRENT ASSETS				
Cash and cash equivalents	$ 116,732	$ 3,617	$ 74,523	$ 209,091
Financial assets at fair value through profit or loss - current	11,077	343	11,070	2,759
Derivative financial assets for hedging	1	-	430	-
Debt investments with no active market - current	5,374	167	8,475	11,179
Notes receivable	31,801	985	27,420	12,109
Trade receivables from unrelated parties	2,417,798	74,912	2,642,711	2,063,019
Trade receivables from related parties	1,052	33	9,518	32,593
Amounts due from customers for construction contracts	454,220	14,073	645,593	491,861
Current tax assets	2,406	75	11,735	-
Inventories, net	2,049,760	63,509	2,054,411	1,788,558
Prepayments	97,862	3,032	84,017	97,264
Other current assets	70,730	2,192	63,781	28,728
Total current assets	5,258,813	162,938	5,633,684	4,737,161
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current	-	-	5,366	700
Available-for-sale financial assets	87,350	2,707	70,645	77,100
Financial assets measured at cost	27,000	837	27,000	27,000
Debt investment with no active market - non-current	1,272	40	1,272	1,272
Investments accounted for using equity method	457,500	14,175	487,640	521,238
Property, plant and equipment	1,442,056	44,680	1,464,591	1,475,187
Intangible assets	12,662	392	14,294	15,646
Deferred tax assets	85,538	2,650	84,387	62,422
Prepayments for equipment	7,205	223	3,220	-
Refundable deposits	2,495	77	1,332	7,589
Long-term prepayments for lease	25,983	805	27,040	27,774
Total non-current assets	2,149,061	66,586	2,186,787	2,215,928
TOTAL	$ 7,407,874	$ 229,524	$ 7,820,471	$ 6,953,089

LIABILITIES AND EQUITY	June 30, 2016 (Reviewed) NT$	June 30, 2016 (Reviewed) US$ (Note)	December 31, 2015 (Audited) NT$	June 30, 2015 (Reviewed) NT$
CURRENT LIABILITIES				
Short-term borrowings	$ 561,496	$ 17,397	$ 738,241	$ 275,136
Financial liabilities at fair value through profit or loss - current	1,029	32	594	1,622
Derivative financial liabilities for hedging	-	-	-	100
Notes payable	-	-	267	-
Trade payables to unrelated parties	1,669,227	51,719	2,038,078	1,661,981
Amounts due to customers for construction contracts	26,690	827	3,579	26,543
Other payables	368,995	11,433	265,069	295,727
Current tax liabilities	36,883	1,143	31,958	27,652
Advance receipts	411,569	12,752	413,467	600,227
Other current liabilities	73,130	2,266	48,017	45,554
Total current liabilities	3,149,019	97,569	3,539,270	2,934,542
NON-CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - non-current	-	-	-	4,194
Long-term borrowings	741,800	22,984	741,800	591,800
Deferred tax liabilities	59,768	1,852	64,051	61,858
Net defined benefit liabilities	310,496	9,620	314,255	272,034
Other non-current liabilities	5,590	173	1,901	1,901
Total non-current liabilities	1,117,654	34,629	1,122,007	931,787
Total liabilities	4,266,673	132,198	4,661,277	3,866,329
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital				
Ordinary shares	2,610,585	80,886	2,610,585	2,610,585
Capital surplus	1,033	32	1,033	1,033
Retained earnings				
Legal reserve	319,994	9,915	297,468	297,468
Special reserve	18,469	572	-	-
Unappropriated earnings	197,997	6,135	262,604	181,564
Total retained earnings	536,460	16,622	560,072	479,032
Other equity				
Exchange differences on translating foreign operations	907	28	9,856	11,933
Unrealized loss on available-for-sale financial assets	(12,050)	(374)	(28,755)	(22,300)
Unrealized gain or loss on cash flow hedges	1	-	430	368
Total other equity	(11,142)	(346)	(18,469)	(9,999)
Total equity attributable to owners of the Company	3,136,936	97,194	3,153,221	3,080,651
NON-CONTROLLING INTERESTS	4,265	132	5,973	6,109
Total equity	3,141,201	97,326	3,159,194	3,086,760
TOTAL	$ 7,407,874	$ 229,524	$ 7,820,471	$ 6,953,089

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$32.275 to US$1.00 at June 30, 2016, 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 August 5, 2016)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2016		2015	2016		2015
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
OPERATING REVENUES						
Sales	$ 1,817,547	$ 56,314	$ 1,094,791	$ 2,773,387	$ 85,930	$ 1,922,661
Construction revenue	122,060	3,782	245,171	202,156	6,263	443,817
Total operating revenues	1,939,607	60,096	1,339,962	2,975,543	92,193	2,366,478
OPERATING COSTS						
Cost of goods sold	1,428,452	44,259	801,279	2,192,631	67,936	1,471,540
Construction cost	148,288	4,594	239,083	231,775	7,181	436,452
Total operating costs	1,576,740	48,853	1,040,362	2,424,406	75,117	1,907,992
GROSS PROFIT	362,867	11,243	299,600	551,137	17,076	458,486
OPERATING EXPENSES						
Selling and marketing expenses	111,358	3,450	69,621	254,956	7,899	146,904
General and administrative expenses	32,694	1,013	37,225	60,019	1,860	66,079
Research and development expenses	21,830	677	33,432	41,037	1,271	56,997
Total operating expenses	165,882	5,140	140,278	356,012	11,030	269,980
PROFIT FROM OPERATIONS	196,985	6,103	159,322	195,125	6,046	188,506
NON-OPERATING INCOME AND EXPENSES						
Other income	3,790	117	278	7,612	236	683
Other gains and losses	2,202	68	1,015	1,529	47	(6,302)
Share of the loss of associates	(7,185)	(222)	(10,806)	(30,140)	(934)	(19,646)
Net income (loss) on financial assets at fair value through profit or loss	2,294	71	(1,351)	(5,973)	(185)	5,461
Finance costs	(7,257)	(224)	(4,215)	(14,652)	(454)	(9,466)
Total non-operating income and expenses	(6,156)	(190)	(15,079)	(41,624)	(1,290)	(29,270)
PROFIT BEFORE INCOME TAX	190,829	5,913	144,243	153,501	4,756	159,236
INCOME TAX EXPENSE	(24,305)	(753)	(31,957)	(22,050)	(683)	(49,856)
NET PROFIT FOR THE PERIOD	166,524	5,160	112,286	131,451	4,073	109,380
OTHER COMPREHENSIVE INCOME AND LOSS						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	(7,229)	(224)	(2,999)	(9,085)	(281)	(11,750)
Unrealized gain (loss) on available-for-sale financial assets	(4,155)	(129)	(6,250)	16,705	517	(5,725)
Cash flow hedges	305	9	156	(429)	(13)	2
Total other comprehensive income and loss	(11,079)	(344)	(9,093)	7,191	223	(17,473)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 155,445	$ 4,816	$ 103,193	$ 138,642	$ 4,296	$ 91,907

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30			For the Six Months Ended June 30		
	2016		2015	2016		2015
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
NET PROFIT ATTRIBUTABLE TO:						
Owners of the Company	$ 166,986	$ 5,174	$ 112,268	$ 133,023	$ 4,122	$ 109,298
Non-controlling interests	(462)	(14)	18	(1,572)	(49)	82
	$ 166,524	$ 5,160	$ 112,286	$ 131,451	$ 4,073	$ 109,380
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:						
Owners of the Company	$ 156,033	$ 4,834	$ 103,233	$ 140,350	$ 4,349	$ 91,975
Non-controlling interests	(588)	(18)	(40)	(1,708)	(53)	(68)
	$ 155,445	$ 4,816	$ 103,193	$ 138,642	$ 4,296	$ 91,907
EARNINGS PER SHARE						
Basic	$0.64	$0.02	$0.43	$0.51	$0.02	$0.42
Diluted	$0.64	$0.02	$0.43	$0.51	$0.02	$0.42

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

(With Deloitte & Touche review report dated August 5, 2016) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands, Except Amount Per Share)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company												
			Retained Earnings				Other Equity						
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Loss on Available-for-sale Financial Assets	Cash Flow Hedges	Total	Controlling Interests	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2015	$ 2,610,585	$ 1,033	$ 271,477	$ 2,118	$ 252,774	$ 526,369	$ 23,533	$ (16,575)	$ 366	$ 7,324	$ 3,145,311	$ 6,177	$ 3,151,488
Appropriation of 2014 earnings													
Legal reserve	-	-	25,991	-	(25,991)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(2,118)	2,118	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(156,635)	(156,635)	-	-	-	-	(156,635)	-	(156,635)
	-	-	25,991	(2,118)	(180,508)	(156,635)	-	-	-	-	(156,635)	-	(156,635)
Net income for the six months ended June 30, 2015	-	-	-	-	109,298	109,298	-	-	-	-	109,298	82	109,380
Other comprehensive income (loss) for the six months ended June 30, 2015, net of income tax	-	-	-	-	-	-	(11,600)	(5,725)	2	(17,323)	(17,323)	(150)	(17,473)
Total comprehensive income (loss) for the six months ended June 30, 2015	-	-	-	-	109,298	109,298	(11,600)	(5,725)	2	(17,323)	91,975	(68)	91,907
BALANCE AT JUNE 30, 2015	$ 2,610,585	$ 1,033	$ 297,468	$ -	$ 181,564	$ 479,032	$ 11,933	$ (22,300)	$ 368	$ (9,999)	$ 3,080,651	$ 6,109	$ 3,086,760
BALANCE AT JANUARY 1, 2016	$ 2,610,585	$ 1,033	$ 297,468	$ -	$ 262,604	$ 560,072	$ 9,856	$ (28,755)	$ 430	$ (18,469)	$ 3,153,221	$ 5,973	$ 3,159,194
Appropriation of 2015 earnings													
Legal reserve	-	-	22,526	-	(22,526)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	18,469	(18,469)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(156,635)	(156,635)	-	-	-	-	(156,635)	-	(156,635)
	-	-	22,526	18,469	(197,630)	(156,635)	-	-	-	-	(156,635)	-	(156,635)
Net income (loss) for the six months ended June 30, 2016	-	-	-	-	133,023	133,023	-	-	-	-	133,023	(1,572)	131,451
Other comprehensive income (loss) for the six months ended June 30, 2016, net of income tax	-	-	-	-	-	-	(8,949)	16,705	(429)	7,327	7,327	(136)	7,191
Total comprehensive income (loss) for the six months ended June 30, 2016	-	-	-	-	133,023	133,023	(8,949)	16,705	(429)	7,327	140,350	(1,708)	138,642
BALANCE AT JUNE 30, 2016	$ 2,610,585	$ 1,033	$ 319,994	$ 18,469	$ 197,997	$ 536,460	$ 907	$ (12,050)	$ 1	$ (11,142)	$ 3,136,936	$ 4,265	$ 3,141,201
BALANCE AT JUNE 30, 2016 (IN U.S. DOLLARS)	$ 80,886	$ 32	$ 9,915	$ 572	$ 6,135	$ 16,622	$ 28	$ (374)	$ -	$ (346)	$ 97,194	$ 132	$ 97,326

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

(With Deloitte & Touche review report dated August 5, 2016)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Reviewed, Not Audited)

	For the Six Months Ended June 30		
	2016		2015
	NT$	US$ (Note)	NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	$ 153,501	$ 4,756	$ 159,236
Adjustments for:			
Depreciation expenses	39,437	1,222	40,126
Amortization expenses	3,602	112	3,013
Recognition of (reversal of) impairment loss on trade receivables	3,897	121	(832)
Net loss (gain) on financial assets at fair value through profit or loss	(10,048)	(311)	2,357
Finance costs	14,652	454	9,466
Interest income	(1,249)	(39)	(570)
Share of loss of associates	30,140	934	19,646
Gain (loss) on disposal of property, plant and equipment	65	2	(230)
Write-down of inventories	1,801	56	3,569
Unrealized net loss on foreign currency exchange	4,507	139	1,004
Prepayment for lease	247	8	385
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss	15,842	491	2,651
Derivative financial instrument for hedging	-	-	468
Notes receivable	(4,454)	(138)	7,050
Trade receivables	212,000	6,568	(64,239)
Trade receivables from related parties	8,466	262	44,315
Amounts due from customers for construction contracts	191,373	5,929	(222,519)
Inventories	3,154	98	(322,155)
Prepayments	(14,711)	(456)	7,566
Other current assets	2,357	73	34,146
Notes payable	(267)	(8)	-
Trade payables	(365,326)	(11,319)	440,066
Amounts due to customers for construction contracts	23,111	716	17,635
Other payables	(52,358)	(1,622)	(73,086)
Receipts in advance	(1,594)	(49)	66,935
Other current liabilities	25,067	776	(51,086)
Accrued pension liabilities	(3,759)	(116)	170
Cash generated from operations	279,453	8,659	125,087
Interest received	1,249	39	570
Interest paid	(15,073)	(467)	(13,451)
Income tax paid	(22,678)	(703)	(58,099)
Net cash generated from operating activities	242,951	7,528	54,107

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Reviewed, Not Audited)

	For the Six Months Ended June 30		
	2016		2015
	NT$	US$ (Note)	NT$
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of debt investments with no active market	$ 3,101	$ 96	$ -
Payments for property, plant and equipment	(20,121)	(623)	(28,556)
Proceeds from disposal of property, plant and equipment	488	15	1,238
Increase in refundable deposits	(1,168)	(36)	(3,091)
Payments for intangible assets	(1,971)	(61)	(8,933)
Decrease (increase) in prepayments for business facilities	(3,985)	(124)	1,000
Net cash used in investing activities	(23,656)	(733)	(38,342)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of short-term borrowings	(174,964)	(5,421)	(194,196)
Proceeds from (refund of) guarantee deposits received	3,735	116	(1,722)
Net cash used in financing activities	(171,229)	(5,305)	(195,918)
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(5,857)	(182)	(17,287)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	42,209	1,308	(197,440)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	74,523	2,309	406,531
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 116,732	$ 3,617	$ 209,091

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$32.275 to US$1.00 at June 30, 2016, 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 August 5, 2016) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(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 reported to the board of directors and authorized for issue on August 5, 2016.

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

a. International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application from 2017

Rule No. 1050026834 issued by the FSC endorsed the following IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") for application starting January 1, 2017.

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28"'Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014

(Continued)

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

(Concluded)

Note 1: Unless stated otherwise, the above new or amended IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

Except for the following, the initial application of the above New or amended IFRSs in 2017 would not have any material impact on the Group's accounting policies:

1) Amendment to IFRS 8 "Operating Segments"

   IFRS 8 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to require disclosure of the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

2) Amendments to IFRS 13 "Fair Value Measurement"

   The basis for conclusions of IFRS 13 was amended by the Annual Improvements to IFRSs: 2010-2012 Cycle to clarify that when the amendment becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

   IFRS 13 was also amended by the Annual Improvements to IFRSs: 2011-2013 Cycle to clarify that the scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

   The application of the above amendments starting from 2017 is not expected to have a material impact on the accounting of the Group.

3) Amendments to IAS 16 “Property, Plant and Equipment”

The amendment “Clarification of Acceptable Methods of Depreciation and Amortization” amended IAS 16 to stipulate that the entity should use appropriate depreciation method to reflect the pattern in which the future economic benefits of property, plant and equipment are expected to be consumed by the entity. It stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The application of IAS 16 starting from 2017 is not expected to have a material impact on the accounting of the Group.

4) Amendment to IAS 36 “Impairment of Assets”

The amendment “Disclosures for Non-financial Assets” clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

5) Amendment to IAS 38 “Intangible assets”

The amendment “Clarification of Acceptable Methods of Depreciation and Amortization” amended IAS 38 to stipulate that the entity should use appropriate amortization method to reflect the pattern in which the future economic benefits of the intangible assets are expected to be consumed by the entity. It clarifies there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The application of IAS 38 starting from 2017 is not expected to have a material impact on the accounting of the Group.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments will have on the Group’s financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that the Group should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note)
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
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 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IFRS 15 "Interpretations of IFRS 15"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost and financial assets mandatorily measured at FVTOCI. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

2) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulated that, when an entity sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when an entity loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when an entity sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated. Also, when an entity loses control of a subsidiary that does not contain a business but retains significant influence or joint control in an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated.

3) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are effective, an entity may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

Except 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

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 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 financial statements.

b. Basis of consolidation

Subsidiaries included in consolidated financial statements:

			% of Ownership		
Investor	**Investee**	**Main Business**	**June 30, 2016**	**December 31, 2015**	**June 30, 2015**
Fortune Electric Co., Ltd.	Power Energy International Ltd.	Investment Holding	100	100	100
	Fortune Electric America Inc.	Agents business	100	100	100
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	60
	Wuhan Fortune Trade Co., Ltd.	Trade business	100	100	100

Note: Subsidiaries included in consolidated financial statements, January 1 to June 30, 2016 and 2015 were based on the same period of unreviewed financial statements.

c. Other significant accounting policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2015. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2015.

1) 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.

2) 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.

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, 2015.