Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the
Nine Months Ended September 30, 2016 and 2015

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

ASSETS	September 30, 2016 (Reviewed) NT$	September 30, 2016 (Reviewed) US$ (Note)	December 31, 2015 (Audited) NT$	September 30, 2015 (Reviewed) NT$
CURRENT ASSETS				
Cash	$ 102,136	$ 3,257	$ 74,523	$ 90,886
Financial assets at fair value through profit or loss - current	4,424	141	11,070	16,647
Derivative financial assets for hedging	-	-	430	1,854
Debt investments with no active market - current	5,374	171	8,475	11,179
Notes receivable	20,319	648	27,420	20,406
Trade receivables from unrelated parties	2,163,838	69,000	2,642,711	2,153,236
Trade receivables from related parties	-	-	9,518	24,176
Amounts due from customers for construction contracts	494,604	15,772	645,593	631,145
Current tax assets	760	24	11,735	-
Inventories, net	1,993,542	63,570	2,054,411	2,289,973
Prepayments	87,223	2,782	84,017	100,409
Other current assets	174,592	5,567	63,781	58,226
Total current assets	5,046,812	160,932	5,633,684	5,398,137
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current	-	-	5,366	7,637
Available-for-sale financial assets	108,920	3,473	70,645	64,225
Financial assets measured at cost	27,000	861	27,000	27,000
Debt investment with no active market - non-current	1,272	41	1,272	1,272
Investments accounted for using equity method	438,251	13,975	487,640	513,855
Property, plant and equipment	1,392,712	44,410	1,464,591	1,454,912
Intangible assets	11,214	358	14,294	15,913
Deferred tax assets	77,686	2,477	84,387	62,290
Prepayments for equipment	10,011	319	3,220	821
Refundable deposits	2,447	78	1,332	4,870
Long-term prepayments for lease	24,990	797	27,040	28,235
Total non-current assets	2,094,503	66,789	2,186,787	2,181,030
TOTAL	$ 7,141,315	$ 227,721	$ 7,820,471	$ 7,579,167

LIABILITIES AND EQUITY	September 30, 2016 (Reviewed) NT$	September 30, 2016 (Reviewed) US$ (Note)	December 31, 2015 (Audited) NT$	September 30, 2015 (Reviewed) NT$
CURRENT LIABILITIES				
Short-term borrowings	$ 553,787	$ 17,659	$ 738,241	$ 638,804
Financial liabilities at fair value through profit or loss - current	65	2	594	891
Notes payable	-	-	267	-
Trade payables to unrelated parties	1,552,908	49,519	2,038,078	1,975,810
Trade payables to related parties	2,426	78	-	-
Amounts due to customers for construction contracts	10,292	328	3,579	4,030
Other payables	184,330	5,878	265,069	187,307
Current tax liabilities	35,726	1,139	31,958	7,879
Advance receipts	420,931	13,423	413,467	503,852
Other current liabilities	49,809	1,588	48,017	53,883
Total current liabilities	2,810,274	89,614	3,539,270	3,372,456
NON-CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - non-current	-	-	-	219
Long-term borrowings	741,800	23,654	741,800	741,800
Deferred tax liabilities	58,363	1,861	64,051	66,092
Net defined benefit liabilities	257,310	8,205	314,255	272,082
Other non-current liabilities	5,109	163	1,901	1,902
Total non-current liabilities	1,062,582	33,883	1,122,007	1,082,095
Total liabilities	3,872,856	123,497	4,661,277	4,454,551
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital				
Ordinary shares	2,610,585	83,246	2,610,585	2,610,585
Capital surplus	1,033	33	1,033	1,033
Retained earnings				
Legal reserve	319,994	10,204	297,468	297,468
Special reserve	18,469	589	-	-
Unappropriated earnings	312,731	9,972	262,604	222,911
Total retained earnings	651,194	20,765	560,072	520,379
Other equity				
Exchange differences on translating foreign operations	(7,713)	(246)	9,856	19,645
Unrealized gain (loss) on available-for-sale financial assets	9,520	304	(28,755)	(35,175)
Cash flow hedges	-	-	430	1,854
Total other equity	1,807	58	(18,469)	(13,676)
Total equity attributable to owners of the Company	3,264,619	104,102	3,153,221	3,118,321
NON-CONTROLLING INTERESTS	3,840	122	5,973	6,295
Total equity	3,268,459	104,224	3,159,194	3,124,616
TOTAL	$ 7,141,315	$ 227,721	$ 7,820,471	$ 7,579,167

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$31.36 to US$1.00 at September 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 November 4, 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 September 30			For the Nine Months Ended September 30		
	2016		2015	2016		2015
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
OPERATING REVENUES						
Sales	$ 1,206,914	$ 38,486	$ 1,053,591	$ 3,980,301	$ 126,922	$ 2,976,252
Construction revenue	184,416	5,880	223,357	386,572	12,327	667,174
Total operating revenues	1,391,330	44,366	1,276,948	4,366,873	139,249	3,643,426
OPERATING COSTS						
Cost of goods sold	953,858	30,416	853,095	3,146,489	100,334	2,324,635
Construction cost	208,480	6,648	219,049	440,255	14,039	655,501
Total operating costs	1,162,338	37,064	1,072,144	3,586,744	114,373	2,980,136
GROSS PROFIT	228,992	7,302	204,804	780,129	24,876	663,290
OPERATING EXPENSES						
Selling and marketing expenses	90,492	2,886	118,107	345,448	11,016	265,011
General and administrative expenses	32,498	1,036	27,205	92,517	2,950	93,284
Research and development expenses	25,552	815	25,080	66,589	2,123	82,077
Total operating expenses	148,542	4,737	170,392	504,554	16,089	440,372
PROFIT FROM OPERATIONS	80,450	2,565	34,412	275,575	8,787	222,918
NON-OPERATING INCOME AND EXPENSES						
Other income	5,221	167	3,476	12,833	409	6,156
Other gains and losses	87,250	2,782	3,863	88,779	2,831	(4,436)
Share of the loss of associates	(19,249)	(614)	(7,383)	(49,389)	(1,575)	(27,029)
Net income (loss) on financial assets at fair value through profit or loss	(5,107)	(163)	25,817	(11,080)	(353)	31,278
Finance costs	(6,436)	(205)	(4,770)	(21,088)	(672)	(14,236)
Total non-operating income and expenses	61,679	1,967	21,003	20,055	640	(8,267)
PROFIT BEFORE INCOME TAX	142,129	4,532	55,415	295,630	9,427	214,651
INCOME TAX EXPENSE	(27,691)	(883)	(14,028)	(49,741)	(1,586)	(63,884)
NET PROFIT FOR THE PERIOD	114,438	3,649	41,387	245,889	7,841	150,767
OTHER COMPREHENSIVE INCOME AND LOSS						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	(8,749)	(279)	7,858	(17,834)	(569)	(3,892)
Unrealized gain (loss) on available-for-sale financial assets	21,570	688	(12,875)	38,275	1,221	(18,600)
Cash flow hedges	(1)	-	1,486	(430)	(14)	1,488
Total other comprehensive income and loss	12,820	409	(3,531)	20,011	638	(21,004)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 127,258	$ 4,058	$ 37,856	$ 265,900	$ 8,479	$ 129,763
NET PROFIT ATTRIBUTABLE TO:						
Owners of the Company	$ 114,734	$ 3,658	$ 41,347	$ 247,757	$ 7,900	$ 150,645
Non-controlling interests	(296)	(9)	40	(1,868)	(59)	122
	$ 114,438	$ 3,649	$ 41,387	$ 245,889	$ 7,841	$ 150,767

(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 September 30			For the Nine Months Ended September 30		
	2016		2015	2016		2015
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:						
Owners of the Company	$ 127,683	$ 4,072	$ 37,670	$ 268,033	$ 8,547	$ 129,645
Non-controlling interests	(425)	(14)	186	(2,133)	(68)	118
	$ 127,258	$ 4,058	$ 37,856	$ 265,900	$ 8,479	$ 129,763
EARNINGS PER SHARE						
Basic	$0.44	$0.01	$0.16	$0.95	$0.03	$0.58
Diluted	$0.44	$0.01	$0.16	$0.95	$0.03	$0.57

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

(With Deloitte & Touche review report dated November 4, 2016) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands)
(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 Gain (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 nine months ended September 30, 2015	-	-	-	-	150,645	150,645	-	-	-	-	150,645	122	150,767
Other comprehensive income (loss) for the nine months ended September 30, 2015, net of income tax	-	-	-	-	-	-	(3,888)	(18,600)	1,488	(21,000)	(21,000)	(4)	(21,004)
Total comprehensive income (loss) for the nine months ended September 30, 2015	-	-	-	-	150,645	150,645	(3,888)	(18,600)	1,488	(21,000)	129,645	118	129,763
BALANCE AT SEPTEMBER 30, 2015	$ 2,610,585	$ 1,033	$ 297,468	$ -	$ 222,911	$ 520,379	$ 19,645	$ (35,175)	$ 1,854	$ (13,676)	$ 3,118,321	$ 6,295	$ 3,124,616
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 nine months ended September 30, 2016	-	-	-	-	247,757	247,757	-	-	-	-	247,757	(1,868)	245,889
Other comprehensive income (loss) for the nine months ended September 30, 2016, net of income tax	-	-	-	-	-	-	(17,569)	38,275	(430)	20,276	20,276	(265)	20,011
Total comprehensive income (loss) for the nine months ended September 30, 2016	-	-	-	-	247,757	247,757	(17,569)	38,275	(430)	20,276	268,033	(2,133)	265,900
BALANCE AT SEPTEMBER 30, 2016	$ 2,610,585	$ 1,033	$ 319,994	$ 18,469	$ 312,731	$ 651,194	$ (7,713)	$ 9,520	$ -	$ 1,807	$ 3,264,619	$ 3,840	$ 3,268,459
BALANCE AT SEPTEMBER 30, 2016 (IN U.S. DOLLARS)	$ 83,246	$ 33	$ 10,204	$ 589	$ 9,972	$ 20,765	$ (246)	$ 304	$ -	$ 58	$ 104,102	$ 122	$ 104,224

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

(With Deloitte & Touche review report dated November 4, 2016)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Nine Months Ended September 30		
	2016		2015
	NT$	US$ (Note)	NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	$ 295,630	$ 9,427	$ 214,651
Adjustments for:			
Depreciation expenses	58,963	1,880	60,038
Amortization expenses	5,355	171	4,857
Recognition of impairment loss on trade receivables	3,897	124	493
Net gain on financial assets at fair value through profit or loss	(4,359)	(139)	(23,174)
Finance costs	21,088	672	14,236
Interest income	(1,452)	(46)	(1,063)
Dividend income	(2,600)	(83)	-
Share of loss of associates	49,389	1,575	27,029
Gain on disposal of property, plant and equipment	(87,396)	(2,787)	(7,938)
Write-down of inventories	1,678	54	6,938
Unrealized net loss on foreign currency exchange	3,109	99	11,291
Prepayment for lease	416	13	591
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss	15,842	505	2,651
Notes receivable	6,955	222	(1,212)
Trade receivables	456,012	14,541	(149,629)
Trade receivables from related parties	9,518	304	52,732
Amounts due from customers for construction contracts	150,989	4,815	(361,803)
Inventories	59,803	1,907	(826,939)
Prepayments	(4,954)	(158)	5,633
Other current assets	(99,882)	(3,185)	(3,744)
Notes payable	(267)	(8)	-
Trade payables from unrelated parties	(479,016)	(15,275)	399,021
Trade payables from related parties	2,426	77	-
Amounts due to customers for construction contracts	6,713	214	348,560
Other payables	(80,290)	(2,560)	(24,440)
Receipts in advance	8,076	258	(29,823)
Other current liabilities	1,746	55	(47,635)
Net defined benefit liabilities	(56,945)	(1,816)	218
Cash generated from (used in) operations	340,444	10,856	(328,461)
Interest received	1,452	46	1,063
Dividend received	2,600	83	-

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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		
	2016		2015
	NT$	US$ (Note)	NT$
Interest paid	$ (21,365)	$ (681)	$ (18,807)
Income tax paid	(45,187)	(1,441)	(79,232)
Net cash generated from (used in) operating activities	277,944	8,863	(425,437)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of debt investments with no active market	3,101	99	-
Payments for property, plant and equipment	(27,734)	(884)	(35,092)
Proceeds from disposal of property, plant and equipment	122,793	3,916	17,683
Increase in refundable deposits	(1,128)	(36)	(354)
Payments for intangible assets	(2,277)	(73)	(11,040)
Decrease (increase) in prepayments for business facilities	(6,791)	(217)	179
Net cash generated from (used in) investing activities	87,964	2,805	(28,624)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments of) proceeds from short-term borrowings	(173,180)	(5,522)	150,742
Proceeds from long-term borrowings	-	-	150,000
Proceeds from (refund of) guarantee deposits received	3,254	104	(1,724)
Issue of cash dividend	(156,635)	(4,995)	(156,635)
Net cash (used in) generated from financing activities	(326,561)	(10,413)	142,383
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(11,734)	(374)	(3,967)
NET INCREASE (DECREASE) IN CASH	27,613	881	(315,645)
CASH AT THE BEGINNING OF THE PERIOD	74,523	2,376	406,531
CASH AT THE END OF THE PERIOD	$ 102,136	$ 3,257	$ 90,886

(Continued)

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

(With Deloitte & Touche review report dated November 4, 2016) (Concluded)

(In Thousands of U.S. Dollars)

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 November 4, 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 amended IFRS 13 starting from 2017 is not expected to have 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 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 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 IFRS 15 will take effect 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
Amendment to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	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**	**September 30, 2016**	**December 31, 2015**	**September 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 September 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.