Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2017 and 2016

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)	March 31, 2016 (Reviewed)
ASSETS	**NT$**	**US$ (Note)**	**NT$**	**NT$**
CURRENT ASSETS				
Cash	$ 110,197	$ 3,633	$ 110,437	$ 120,922
Financial assets at fair value through profit or loss - current	653	22	5,533	7,836
Derivative financial assets for hedging	48	2	283	-
Debt investments with no active market - current	5,374	177	5,374	5,374
Notes receivable	35,213	1,161	50,057	24,308
Trade receivables from unrelated parties	2,268,191	74,784	2,207,719	2,420,336
Trade receivables from related parties	-	-	15,083	-
Amounts due from customers for construction contracts	454,538	14,986	442,166	480,357
Current tax assets	582	19	-	11,723
Inventories, net	2,000,757	65,966	1,916,983	2,442,343
Prepayments - current	75,096	2,476	90,945	76,176
Other current assets	58,722	1,936	73,061	56,454
Total current assets	5,009,371	165,162	4,917,641	5,645,829
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current	-	-	-	2,871
Available-for-sale financial assets	110,325	3,638	99,475	91,505
Financial assets measured at cost	27,000	890	27,000	27,000
Debt investments with no active market - non-current	1,272	42	1,272	1,272
Investments accounted for using equity method	396,184	13,062	393,270	464,685
Property, plant and equipment	1,398,182	46,099	1,412,493	1,461,390
Intangible assets	11,734	387	12,766	13,793
Deferred tax assets	58,885	1,941	62,485	86,112
Prepayments - non-current	3,705	122	4,194	2,482
Refundable deposits	4,508	149	2,681	1,570
Long-term prepayment for lease	23,355	770	24,702	26,790
Total non-current assets	2,035,150	67,100	2,040,338	2,179,470
TOTAL	$ 7,044,521	$ 232,262	$ 6,957,979	$ 7,825,299
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	$ 772,723	$ 25,477	$ 383,976	$ 944,590
Financial liabilities at fair value through profit or loss - current	3,086	102	2,515	144
Derivative financial liabilities for hedging	-	-	-	452
Notes payable	-	-	-	225
Trade payables to unrelated parties	1,355,685	44,698	1,403,301	1,828,352
Trade payable to related parties	4,935	163	-	39,474
Amounts due to customers for construction contracts	23,477	774	19,948	23,251
Other payables	161,518	5,325	264,771	217,377
Current tax liabilities	30,869	1,018	24,202	33,154
Advance receipts	459,454	15,148	490,232	424,085
Other current liabilities	46,521	1,534	56,845	43,527
Total current liabilities	2,858,268	94,239	2,645,790	3,554,631
NON-CURRENT LIABILITIES				
Long-term borrowings	611,800	20,171	741,800	741,800
Deferred tax liabilities	51,858	1,710	55,087	62,310
Net defined benefit liabilities	230,587	7,603	257,513	312,752
Other non-current liabilities	2,152	71	2,652	11,415
Total non-current liabilities	896,397	29,555	1,057,052	1,128,277
Total liabilities	3,754,665	123,794	3,702,842	4,682,908
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	2,610,585	86,073	2,610,585	2,610,585
Capital surplus	1,033	34	1,033	1,033
Retained earnings				
Legal reserve	319,994	10,550	319,994	297,468
Special reserve	18,469	609	18,469	-
Unappropriated earnings	348,889	11,503	313,462	228,641
Total retained earnings	687,352	22,662	651,925	526,109
Other equity				
Exchange differences on translating foreign operations	(22,430)	(740)	(11,589)	8,010
Unrealized loss on available-for-sale financial assets	10,925	360	75	(7,895)
Unrealized gain or loss on cash flow hedges	48	2	283	(304)
Total other equity	(11,457)	(378)	(11,231)	(189)
Total equity attributable to owners of the Company	3,287,513	108,391	3,252,312	3,137,538
NON-CONTROLLING INTERESTS	2,343	77	2,825	4,853
Total equity	3,289,856	108,468	3,255,137	3,142,391
TOTAL	$ 7,044,521	$ 232,262	$ 6,957,979	$ 7,825,299

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$30.33 to US$1.00 at March 31, 2017, 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 May 4, 2017)

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 March 31		
	2017		2016
	NT$	US$ (Note)	NT$
OPERATING REVENUES			
Sales	$ 1,145,270	$ 37,760	$ 955,840
Construction revenue	45,147	1,489	80,096
Total operating revenues	1,190,417	39,249	1,035,936
OPERATING COSTS			
Cost of goods sold	936,243	30,869	764,179
Construction cost	66,695	2,199	83,487
Total operating costs	1,002,938	33,068	847,666
GROSS PROFIT	187,479	6,181	188,270
OPERATING EXPENSES			
Selling and marketing expenses	90,518	2,984	143,598
General and administrative expenses	27,645	912	27,325
Research and development expenses	21,477	708	19,207
Total operating expenses	139,640	4,604	190,130
PROFIT (LOSS) FROM OPERATIONS	47,839	1,577	(1,860)
NON-OPERATING INCOME AND EXPENSES			
Other income	3,071	101	3,822
Other gains and losses	427	14	(673)
Share of the loss of associates	1,616	53	(22,955)
Net income on financial assets at fair value through profit or loss	(5,016)	(165)	(8,267)
Finance costs	(5,931)	(195)	(7,395)
Total non-operating income and expenses	(5,833)	(192)	(35,468)
PROFIT (LOSS) BEFORE INCOME TAX	42,006	1,385	(37,328)
INCOME TAX EXPENSE (BENEFIT)	6,942	229	(2,255)
NET PROFIT (LOSS) FOR THE PERIOD	35,064	1,156	(35,073)

(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 March 31		
	2017		2016
	NT$	US$ (Note)	NT$
OTHER COMPREHENSIVE INCOME AND LOSS			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	$ (10,960)	$ (361)	$ (1,856)
Unrealized gain on available-for-sale financial assets	10,850	358	20,860
Cash flow hedges	(235)	(8)	(734)
Total other comprehensive income and loss	(345)	(11)	18,270
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ 34,719	$ 1,145	$ (16,803)
NET PROFIT (LOSS) ATTRIBUTABLE TO:			
Owners of the Company	$ 35,427	$ 1,168	$ (33,963)
Non-controlling interests	(363)	(12)	(1,110)
	$ 35,064	$ 1,156	$ (35,073)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company	$ 35,201	$ 1,161	$ (15,683)
Non-controlling interests	(482)	(16)	(1,120)
	$ 34,719	$ 1,145	$ (16,803)
EARNING (LOSS) PER SHARE			
Basic	$ 0.14	$ -	$ (0.13)
Diluted	$ 0.14	$ -	$ (0.13)

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$30.33 to US$1.00 at March 31, 2017, 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 May 4, 2017) (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, 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
Net income for the three months ended March 31, 2016	-	-	-	-	(33,963)	(33,963)	-	-	-	-	(33,963)	(1,110)	(35,073)
Other comprehensive income (loss) for the three months ended March 31, 2016, net of income tax	-	-	-	-	-	-	(1,846)	20,860	(734)	18,280	18,280	(10)	18,270
Total comprehensive income (loss) for the three months ended March 31, 2016	-	-	-	-	(33,963)	(33,963)	(1,846)	20,860	(734)	18,280	(15,683)	(1,120)	(16,803)
BALANCE AT MARCH 31, 2016	$ 2,610,585	$ 1,033	$ 297,468	$ -	$ 228,641	$ 526,109	$ 8,010	$ (7,895)	$ (304)	$ (189)	$ 3,137,538	$ 4,853	$ 3,142,391
BALANCE AT JANUARY 1, 2017	$ 2,610,585	$ 1,033	$ 319,994	$ 18,469	$ 313,462	$ 651,925	$ (11,589)	$ 75	$ 283	$ (11,231)	$ 3,252,312	$ 2,825	$ 3,255,137
Net income for the three months ended March 31, 2017	-	-	-	-	35,427	35,427	-	-	-	-	35,427	(363)	35,064
Other comprehensive income (loss) for the three months ended March 31, 2017, net of income tax	-	-	-	-	-	-	(10,841)	10,850	(235)	(226)	(226)	(119)	(345)
Total comprehensive income (loss) for the three months ended March 31, 2017	-	-	-	-	35,427	35,427	(10,841)	10,850	(235)	(226)	35,201	(482)	34,719
BALANCE AT MARCH 31, 2017	$ 2,610,585	$ 1,033	$ 319,994	$ 18,469	$ 348,889	$ 687,352	$ (22,430)	$ 10,925	$ 48	$ (11,457)	$ 3,287,513	$ 2,343	$ 3,289,856
BALANCE AT MARCH 31, 2017 (IN U.S. DOLLARS)	$ 86,073	$ 34	$ 10,550	$ 609	$ 11,503	$ 22,662	$ (740)	$ 360	$ 2	$ (378)	$ 108,391	$ 77	$ 108,468

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$30.33 to US$1.00 at March 31, 2017, 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 May 4, 2017)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31		
	2017		2016
	NT$	US$ (Note)	NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before income tax	$ 42,006	$ 1,385	$ (37,328)
Adjustments for:			
Depreciation expenses	20,943	691	19,763
Amortization expenses	1,977	65	1,826
Impairment loss recognized on trade receivables	303	10	1,286
Net gain on financial assets at fair value through profit or loss	2,433	80	(10,563)
Finance costs	5,931	195	7,395
Interest income	(660)	(22)	(343)
Share of (profit) loss of associates	(1,616)	(53)	22,955
Loss on disposal of property, plant and equipment	3	-	139
Write-down of inventories	337	11	-
Unrealized net loss on foreign currency exchange	5,507	182	13,018
Prepayment for lease	222	7	127
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss	3,018	100	15,842
Derivative financial assets for hedging	-	-	148
Notes receivable	14,834	489	3,101
Trade receivables	(80,653)	(2,659)	208,852
Trade receivables from related parties	15,083	497	8,826
Amounts due from customers for construction contracts	(12,372)	(408)	165,236
Inventories	(83,492)	(2,753)	(400,245)
Prepayments	14,770	487	7,703
Other current assets	14,308	472	7,323
Notes payable	-	-	(42)
Trade payables	(39,239)	(1,294)	(40,355)
Trade payables to related parties	4,935	163	40,166
Amounts due to customers for construction contracts	3,529	116	(170,282)
Other payables	(103,224)	(3,403)	(47,362)
Receipts in advance	(29,948)	(987)	10,664
Other current liabilities	(10,324)	(340)	15,182
Net defined benefit liabilities	(26,926)	(888)	(1,503)
Other non-current liabilities	-	-	(46)
Cash used in operations	(238,315)	(7,857)	(158,517)
Interest received	660	22	343
Interest paid	(6,159)	(203)	(7,823)
Income tax paid	(719)	(24)	(20)
Net cash used in operating activities	(244,533)	(8,062)	(166,017)

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31		
	2017		2016
	NT$	US$ (Note)	NT$
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of debt investments with no active market	$ -	$ -	$ 3,101
Acquisition of investments accounted for using equity method	(1,385)	(46)	-
Payments for property, plant and equipment	(10,285)	(339)	(17,315)
Proceeds from disposal of property, plant and equipment	-	-	189
Increase in refundable deposits	(1,845)	(61)	(244)
Payments for intangible assets	(950)	(31)	(1,326)
Decrease in prepayments	490	16	738
Net cash used in investing activities	(13,975)	(461)	(14,857)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings	398,091	13,125	206,555
Repayments of long-term borrowings	(130,000)	(4,286)	-
Refund of (proceeds from) guarantee deposits received	(500)	(16)	9,560
Net cash generated from financing activities	267,591	8,823	216,115
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(9,323)	(307)	11,158
NET INCREASE (DECREASE) IN CASH	(240)	(7)	46,399
CASH AT THE BEGINNING OF THE PERIOD	110,437	3,641	74,523
CASH AT THE END OF THE PERIOD	$ 110,197	$ 3,634	$ 120,922

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$30.33 to US$1.00 at March 31, 2017, 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 May 4, 2017) (Concluded)

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 May 4, 2017.

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) endorsed and issued into by the 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 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.

   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.

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.

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.

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.

6) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions is enhanced.

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

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

The FSC announced that amendments to IFRS 9 and 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 1)**
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments 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
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	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
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

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.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

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 from January 2018.

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.

4) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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 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 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.

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

Subsidiaries included in consolidated financial statements:

Investor	Investee	Main Business	% of Ownership March 31, 2017	December 31, 2016	March 31, 2016
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 March 31, 2017 and 2016 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, 2016.

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, 2016.