Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2017 and 2016

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

ASSETS	June 30, 2017 (Reviewed) NT$	June 30, 2017 (Reviewed) US$ (Note)	December 31, 2016 (Audited) NT$	June 30, 2016 (Reviewed) NT$
CURRENT ASSETS				
Cash	$ 77,547	$ 2,549	$ 110,437	$ 116,732
Financial assets at fair value through profit or loss	870	29	5,533	11,077
Derivative financial assets for hedging	-	-	283	1
Debt investments with no active market - current	5,165	170	5,374	5,374
Notes receivable	30,232	994	50,057	31,801
Trade receivables from unrelated parties	2,369,737	77,901	2,207,719	2,417,798
Trade receivables from related parties	125	4	15,083	1,052
Amounts due from customers for construction contracts	399,580	13,135	442,166	454,220
Current tax assets	554	18	-	2,406
Inventories, net	2,126,249	69,896	1,916,983	2,049,760
Prepayments - current	64,171	2,110	90,945	97,862
Other current assets	66,266	2,178	73,264	70,730
Total current assets	5,140,496	168,984	4,917,844	5,258,813
NON-CURRENT ASSETS				
Available-for-sale financial assets	-	-	99,475	87,350
Financial assets measured at cost	30,310	996	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	387,334	12,733	393,270	457,500
Property, plant and equipment	1,382,460	45,446	1,412,493	1,442,056
Intangible assets	10,335	340	12,766	12,662
Deferred tax assets	50,066	1,646	62,485	85,538
Prepayments - non-current	5,938	195	4,194	7,205
Refundable deposits	4,525	149	2,478	2,495
Long-term prepayment for lease	23,602	775	24,702	25,983
Total non-current assets	1,895,842	62,322	2,040,135	2,149,061
TOTAL	$ 7,036,338	$ 231,306	$ 6,957,979	$ 7,407,874
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	$ 658,913	$ 21,660	$ 385,677	$ 573,074
Financial liabilities at fair value through profit or loss	149	5	2,515	1,029
Derivative financial liabilities for hedging	7	-	-	-
Trade payables to unrelated parties	1,407,309	46,263	1,406,431	1,688,252
Amounts due to customers for construction contracts	33,501	1,101	19,948	26,690
Other payables	390,143	12,825	264,771	368,995
Current tax liabilities	21,525	708	24,202	36,883
Advance receipts	345,131	11,346	490,232	411,569
Other current liabilities	23,122	760	52,014	42,527
Total current liabilities	2,879,800	94,668	2,645,790	3,149,019
NON-CURRENT LIABILITIES				
Long-term borrowings	741,800	24,386	741,800	741,800
Deferred tax liabilities	50,631	1,664	55,087	59,768
Net defined benefit liabilities	227,875	7,491	257,513	310,496
Other non-current liabilities	2,985	98	2,652	5,590
Total non-current liabilities	1,023,291	33,639	1,057,052	1,117,654
Total liabilities	3,903,091	128,307	3,702,842	4,266,673
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	2,610,585	85,818	2,610,585	2,610,585
Capital surplus	1,033	34	1,033	1,033
Retained earnings				
Legal reserve	345,050	11,343	319,994	319,994
Special reserve	11,231	369	18,469	18,469
Unappropriated earnings	181,666	5,972	313,462	197,997
Total retained earnings	537,947	17,684	651,925	536,460
Other equity				
Exchange differences on translating foreign operations	(18,736)	(616)	(11,589)	907
Unrealized gain (loss) on available-for-sale financial assets	-	-	75	(12,050)
Unrealized gain or loss on cash flow hedges	(7)	-	283	1
Total other equity	(18,743)	(616)	(11,231)	(11,142)
Total equity attributable to owners of the Company	3,130,822	102,920	3,252,312	3,136,936
NON-CONTROLLING INTERESTS	2,425	79	2,825	4,265
Total equity	3,133,247	102,999	3,255,137	3,141,201
TOTAL	$ 7,036,338	$ 231,306	$ 6,957,979	$ 7,407,874

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$30.42 to US$1.00 at June 30, 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 August 7, 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 June 30			For the Six Months Ended June 30		
	2017		2016	2017		2016
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
OPERATING REVENUES						
Sales	$ 1,230,272	$ 40,443	$ 1,817,547	$ 2,375,542	$ 78,091	$ 2,773,387
Construction revenue	116,019	3,814	122,060	161,166	5,298	202,156
Total operating revenues	1,346,291	44,257	1,939,607	2,536,708	83,389	2,975,543
OPERATING COSTS						
Cost of goods sold	978,520	32,167	1,428,452	1,914,763	62,944	2,192,631
Construction cost	168,083	5,526	148,288	234,778	7,718	231,775
Total operating costs	1,146,603	37,693	1,576,740	2,149,541	70,662	2,424,406
GROSS PROFIT	199,688	6,564	362,867	387,167	12,727	551,137
OPERATING EXPENSES						
Selling and marketing expenses	87,234	2,868	111,358	177,752	5,843	254,956
General and administrative expenses	30,518	1,003	32,694	58,163	1,912	60,019
Research and development expenses	30,133	990	21,830	51,610	1,696	41,037
Total operating expenses	147,885	4,861	165,882	287,525	9,451	356,012
PROFIT FROM OPERATIONS	51,803	1,703	196,985	99,642	3,276	195,125
NON-OPERATING INCOME AND EXPENSES						
Other income	2,443	80	3,790	5,514	181	7,612
Other gains and losses	33,078	1,087	2,202	33,505	1,101	1,529
Share of the loss of associates	(8,911)	(293)	(7,185)	(7,295)	(240)	(30,140)
Net income (loss) on financial assets at fair value through profit or loss	2,836	93	2,294	(2,180)	(72)	(5,973)
Finance costs	(6,190)	(203)	(7,257)	(12,121)	(398)	(14,652)
Total non-operating income and expenses	23,256	764	(6,156)	17,423	572	(41,624)
PROFIT BEFORE INCOME TAX	75,059	2,467	190,829	117,065	3,848	153,501
INCOME TAX EXPENSE	15,574	512	24,305	22,516	740	(22,050)
NET PROFIT FOR THE PERIOD	59,485	1,955	166,524	94,549	3,108	175,551
OTHER COMPREHENSIVE INCOME AND LOSS						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	3,733	123	(7,229)	(7,227)	(238)	(9,085)
Unrealized gain (loss) on available-for-sale financial assets	(10,925)	(359)	(4,155)	(75)	(2)	16,705
Cash flow hedges	(55)	(2)	305	(290)	(9)	(429)
Total other comprehensive income and loss	(7,247)	(238)	(11,079)	(7,592)	(249)	7,191
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 52,238	$ 1,717	$ 155,445	$ 86,957	$ 2,859	$ 182,742

(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		
	2017		2016	2017		2016
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
NET PROFIT (LOSS) ATTRIBUTABLE TO:						
Owners of the Company	$ 59,442	$ 1,954	$ 166,986	$ 94,869	$ 3,119	$ 133,023
Non-controlling interests	43	1	(462)	(320)	(11)	(1,572)
	$ 59,485	$ 1,955	$ 166,524	$ 94,549	$ 3,108	$ 131,451
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:						
Owners of the Company	$ 52,156	$ 1,714	$ 156,033	$ 87,357	$ 2,872	$ 140,350
Non-controlling interests	82	3	(588)	(400)	(13)	(1,708)
	$ 52,238	$ 1,717	$ 155,445	$ 86,957	$ 2,859	$ 138,642
EARNINGS PER SHARE						
Basic	$0.23	$0.01	$0.64	$0.36	$0.01	$0.51
Diluted	$0.23	$0.01	$0.64	$0.36	$0.01	$0.51

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

(With Deloitte & Touche review report dated August 7, 2017) (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												
							Other Equity						
			Retained Earnings				Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets					
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total			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
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 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
Appropriation of 2016 earnings													
Legal reserve	-	-	25,056	-	(25,056)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(7,238)	7,238	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(208,847)	(208,847)	-	-	-	-	(208,847)	-	(208,847)
	-	-	25,056	(7,238)	(226,665)	(208,847)	-	-	-	-	(208,847)	-	(208,847)
Net income (loss) for the six months ended June 30, 2017	-	-	-	-	94,869	94,869	-	-	-	-	94,869	(320)	94,549
Other comprehensive income (loss) for the six months ended June 30, 2017, net of income tax	-	-	-	-	-	-	(7,147)	(75)	(290)	(7,512)	(7,512)	(80)	(7,592)
Total comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	94,869	94,869	(7,147)	(75)	(290)	(7,512)	87,357	(400)	86,957
BALANCE AT JUNE 30, 2017	$ 2,610,585	$ 1,033	$ 345,050	$ 11,231	$ 181,666	$ 537,947	$ (18,736)	$ -	$ (7)	$ (18,743)	$ 3,130,822	$ 2,425	$ 3,133,247
BALANCE AT JUNE 30, 2017 (IN U.S. DOLLARS)	$ 85,818	$ 34	$ 11,343	$ 369	$ 5,972	$ 17,684	$ (616)	$ -	$ -	$ (616)	$ 102,920	$ 79	$ 102,999

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

(With Deloitte & Touche review report dated August 7, 2017)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30		
	2017		2016
	NT$	US$ (Note)	NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	$ 117,065	$ 3,848	$ 153,501
Adjustments for:			
Depreciation expenses	41,763	1,373	39,437
Amortization expenses	3,965	130	3,602
Impairment loss recognized (reversal of impairment loss) on trade receivables	(550)	(18)	3,897
Net gain on financial assets at fair value through profit or loss	(721)	(24)	(10,048)
Finance costs	12,121	398	14,652
Interest income	(940)	(31)	(1,249)
Share of loss of associates	7,295	240	30,140
Loss on disposal of property, plant and equipment	5	-	65
Net gain on disposal of available-for-sale financial assets	(29,304)	(963)	-
Write-down of inventories	337	11	1,801
Unrealized net loss on foreign currency exchange	2,472	81	4,507
Prepayment for lease	398	13	247
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss	3,018	99	15,842
Notes receivable	19,819	652	(4,454)
Trade receivables	(168,303)	(5,532)	212,000
Trade receivables from related parties	14,958	492	8,466
Amounts due from customers for construction contracts	42,586	1,400	191,373
Inventories	(209,217)	(6,878)	3,154
Prepayments	26,102	858	(14,711)
Other current assets	6,979	229	2,357
Notes payable	-	-	(267)
Trade payables	5,261	173	(346,301)
Amounts due to customers for construction contracts	13,553	446	23,111
Other payables	(83,180)	(2,734)	(52,358)
Receipts in advance	(144,583)	(4,753)	(1,594)
Other current liabilities	(28,892)	(950)	(5,536)
Net defined benefit liabilities	(29,638)	(974)	(3,759)
Cash generated from operations	(377,631)	(12,414)	267,875
Interest received	940	31	1,249

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30		
	2017		2016
	NT$	US$ (Note)	NT$
Interest paid	$ (12,245)	$ (403)	$ (15,073)
Income tax paid	(17,929)	(589)	(22,678)
Net cash generated from (used in) operating activities	(406,865)	(13,375)	231,373
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of available-for-sale financial assets	128,704	4,231	-
Proceeds from sale of debt investments with no active market	209	7	3,101
Purchase of financial assets measured at cost	(3,310)	(108)	-
Acquisition of investments accounted for using equity method	(1,385)	(46)	-
Payments for property, plant and equipment	(14,086)	(463)	(20,121)
Proceeds from disposal of property, plant and equipment	-	-	488
Increase in refundable deposits	(2,064)	(68)	(1,168)
Payments for intangible assets	(1,538)	(51)	(1,971)
Increase in prepayments	(1,743)	(57)	(3,985)
Net cash generated from (used in) investing activities	104,787	3,445	(23,656)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments of) short-term borrowings	275,264	9,049	(163,385)
Proceeds from guarantee deposits received	333	11	3,735
Net cash generated from (used in) financing activities	275,597	9,060	(159,650)
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(6,409)	(211)	(5,858)

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30		
	2017		2016
	NT$	US$ (Note)	NT$
NET INCREASE (DECREASE) IN CASH	$ (32,890)	$ (1,081)	$ 42,209
CASH AT THE BEGINNING OF THE PERIOD	110,437	3,630	74,523
CASH AT THE END OF THE PERIOD	$ 77,547	$ 2,549	$ 116,732

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$30.42 to US$1.00 at June 30, 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 August 7, 2017) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(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 7, 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) (collectively, the "IFRSs") endorsed and issued into effect 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. IFRSs endorsed by the FSC for application starting from 2018

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
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
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) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures," were amended in this annual improvement.

The amendment to IFRS 12 clarified that when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale. The Group will apply the aforementioned amendment retrospectively.

2) IFRS 9 "Financial Instruments"

Recognition, measurement and impairment 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.

Based on an analysis of the Group's financial assets as at June 30, 2017 on the basis of the facts and circumstances that exist at that date, the Group has performed a preliminary assessment of the impact of IFRS 9 to the classification and measurement of financial assets as follows:

a) Under IFRS 9, unlisted shares measured at cost will be measured at fair value.

b) Pledged time deposit with maturities over three months classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect the contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". The loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. 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.

The Group has performed a preliminary assessment that the Group will apply the simplified approach to recognize lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to the debt instrument investments and the financial guarantee contracts, the Group will assess whether there has been a significant increase in the credit risk to determine whether to recognize 12-month or lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for financial assets.

The Group elects not to restate prior periods when applying the requirements for the recognition, measurement and impairment of financial assets under IFRS 9 and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9. Furthermore, the Group will provide disclosure of the differences in amounts if the Group continued to apply the existing accounting treatments in 2018.

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 the hedging cost of 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.

A preliminary assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9. Under the Group's current hedge accounting policy, the forward element of forward contracts is excluded from designated hedging relationships and the related changes are recognized directly in profit or loss. On adoption of IFRS 9, the forward element of forward contracts may be elected to be recognized in other comprehensive income and accumulated in other equity and accounted for subsequently to be reclassified to profit or loss or be included directly in the carrying amount of the asset or the liability recognized for the hedged items and the above treatments are expected to be applied prospectively.

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, the Group recognizes 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 Group satisfies a performance obligation.

The Group elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in the retained earnings on January 1, 2018.

In addition, the Group will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

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 will apply IFRIC 22 prospectively to all assets, expenses and income recognized on or after January 1, 2018 within the scope of the Interpretation.

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.

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

1) 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.

2) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

3) IFRIC 23 "Uncertainty Over Income Tax Treatments"

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

The Group may elect to apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 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 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:

			% of Ownership		
Investor	**Investee**	**Main Business**	**June 30, 2017**	**December 31, 2016**	**June 30, 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 June 30, 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.