Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the
Nine Months Ended September 30, 2017 and 2016

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

ASSETS	September 30, 2017 (Reviewed) NT$	September 30, 2017 (Reviewed) US$ (Note)	December 31, 2016 (Audited) NT$	September 30, 2016 (Reviewed) NT$
CURRENT ASSETS				
Cash	$ 78,639	$ 2,599	$ 110,437	$ 102,136
Financial assets at fair value through profit or loss	645	21	5,533	4,424
Derivative financial assets for hedging	-	-	283	-
Debt investments with no active market - current	5,165	171	5,374	5,374
Notes receivable	33,171	1,096	50,057	20,319
Trade receivables from unrelated parties	2,176,269	71,919	2,207,719	2,163,838
Trade receivables from related parties	-	-	15,083	-
Amounts due from customers for construction contracts	311,875	10,307	442,166	494,604
Current tax assets	6,487	214	-	760
Inventories, net	2,234,500	73,843	1,916,983	1,993,542
Prepayments - current	59,695	1,973	90,945	87,223
Other current assets	69,931	2,311	73,264	174,592
Total current assets	4,976,377	164,454	4,917,844	5,046,812
NON-CURRENT ASSETS				
Available-for-sale financial assets	-	-	99,475	108,920
Financial assets measured at cost	30,310	1,002	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	370,006	12,227	393,270	438,251
Property, plant and equipment	1,375,841	45,467	1,412,493	1,392,712
Intangible assets	11,219	371	12,766	11,214
Deferred tax assets	51,048	1,687	62,485	77,686
Prepayments - non-current	9,091	300	4,194	10,011
Refundable deposits	4,295	142	2,478	2,447
Long-term prepayment for lease	23,771	786	24,702	24,990
Total non-current assets	1,876,853	62,024	2,040,135	2,094,503
TOTAL	$ 6,853,230	$ 226,478	$ 6,957,979	$ 7,141,315
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	$ 798,520	$ 26,389	$ 385,677	$ 553,787
Financial liabilities at fair value through profit or loss	52	2	2,515	65
Notes payable to unrelated parties	887	29	-	-
Trade payables to unrelated parties	1,374,350	45,418	1,406,431	1,552,908
Trade payables to related parties	6,783	224	-	2,426
Amounts due to customers for construction contracts	33,521	1,108	19,948	10,292
Other payables	162,637	5,375	264,771	184,330
Current tax liabilities	-	-	24,202	35,726
Advance receipts	307,807	10,172	490,232	420,931
Other current liabilities	28,702	948	52,014	49,809
Total current liabilities	2,713,259	89,665	2,645,790	2,810,274
NON-CURRENT LIABILITIES				
Long-term borrowings	741,800	24,514	741,800	741,800
Deferred tax liabilities	51,199	1,692	55,087	58,363
Net defined benefit liabilities	225,094	7,439	257,513	257,310
Other non-current liabilities	3,316	109	2,652	5,109
Total non-current liabilities	1,021,409	33,754	1,057,052	1,062,582
Total liabilities	3,734,668	123,419	3,702,842	3,872,856
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	2,610,585	86,272	2,610,585	2,610,585
Capital surplus	1,033	34	1,033	1,033
Retained earnings				
Legal reserve	345,050	11,403	319,994	319,994
Special reserve	11,231	371	18,469	18,469
Unappropriated earnings	164,498	5,436	313,462	312,731
Total retained earnings	520,779	17,210	651,925	651,194
Other equity				
Exchange differences on translating foreign operations	(15,824)	(523)	(11,589)	(7,713)
Unrealized gain or loss on available-for-sale financial assets	-	-	75	9,520
Unrealized gain or loss on cash flow hedges	-	-	283	-
Total other equity	(15,824)	(523)	(11,231)	1,807
Total equity attributable to owners of the Company	3,116,573	102,993	3,252,312	3,264,619
NON-CONTROLLING INTERESTS	1,989	66	2,825	3,840
Total equity	3,118,562	103,059	3,255,137	3,268,459
TOTAL	$ 6,853,230	$ 226,478	$ 6,957,979	$ 7,141,315

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$30.26 to US$1.00 at September 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 November 6, 2017)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2017		2016	2017		2016
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
OPERATING REVENUES						
Sales	$ 1,209,687	$ 39,976	$ 1,206,914	$ 3,585,229	$ 118,481	$ 3,980,301
Construction revenue	22,236	735	184,416	183,402	6,061	386,572
Total operating revenues	1,231,923	40,711	1,391,330	3,768,631	124,542	4,366,873
OPERATING COSTS						
Cost of goods sold	1,058,296	34,973	953,858	2,973,059	98,250	3,146,489
Construction cost	52,343	1,730	208,480	287,121	9,489	440,255
Total operating costs	1,110,639	36,703	1,162,338	3,260,180	107,739	3,586,744
GROSS PROFIT	121,284	4,008	228,992	508,451	16,803	780,129
OPERATING EXPENSES						
Selling and marketing expenses	78,047	2,579	90,492	255,799	8,453	345,448
General and administrative expenses	26,855	887	32,498	85,018	2,810	92,517
Research and development expenses	21,779	720	25,552	73,389	2,425	66,589
Total operating expenses	126,681	4,186	148,542	414,206	13,688	504,554
PROFIT (LOSS) FROM OPERATIONS	(5,397)	(178)	80,450	94,245	3,115	275,575
NON-OPERATING INCOME AND EXPENSES						
Other income	4,793	158	5,221	10,307	340	12,833
Other gains and losses	4,293	142	87,250	37,798	1,249	88,779
Share of the loss of associates	(17,317)	(572)	(19,249)	(24,612)	(813)	(49,389)
Net income (loss) on financial assets at fair value through profit or loss	1,571	52	(5,107)	(609)	(20)	(11,080)
Finance costs	(5,463)	(181)	(6,436)	(17,584)	(581)	(21,088)
Total non-operating income and expenses	(12,123)	(401)	61,679	5,300	175	20,055
PROFIT (LOSS) BEFORE INCOME TAX	(17,520)	(579)	142,129	99,545	3,290	295,630
INCOME TAX EXPENSE	111	4	27,691	22,627	748	49,741
NET PROFIT (LOSS) FOR THE PERIOD	(17,631)	(583)	114,438	76,918	2,542	245,889
OTHER COMPREHENSIVE INCOME AND LOSS						
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	2,949	98	(8,749)	(4,252)	(141)	(17,834)
Unrealized gain (loss) on available-for-sale financial assets	-	-	21,570	(75)	(3)	38,275
Cash flow hedges	7	-	(1)	(283)	(9)	(430)
Share of the other comprehensive income of associates accounted for using the equity method	(10)	-	-	(36)	(1)	-
Total other comprehensive income and loss	2,946	98	12,820	(4,646)	(154)	20,011
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ (14,685)	$ (485)	$ 127,258	$ 72,272	$ 2,388	$ 265,900

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2017		2016	2017		2016
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
NET PROFIT (LOSS) ATTRIBUTABLE TO:						
Owners of the Company	$ (17,168)	$ (568)	$ 114,734	$ 77,701	$ 2,568	$ 247,757
Non-controlling interests	(463)	(15)	(296)	(783)	(26)	(1,868)
	$ (17,631)	$ (583)	$ 114,438	$ 76,918	$ 2,542	$ 245,889
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:						
Owners of the Company	$ (14,249)	$ (471)	$ 127,683	$ 73,108	$ 2,416	$ 268,033
Non-controlling interests	(436)	(14)	(425)	(836)	(28)	(2,133)
	$ (14,685)	$ (485)	$ 127,258	$ 72,272	$ 2,388	$ 265,900
EARNINGS (LOSS) PER SHARE						
Basic	$(0.07)	$(0.00)	$0.44	$0.30	$0.01	$0.95
Diluted	$(0.07)	$(0.00)	$0.44	$0.30	$0.01	$0.95

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

(With Deloitte & Touche review report dated November 6, 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
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 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 nine months ended September 30, 2017	-	-	-	-	77,701	77,701	-	-	-	-	77,701	(783)	76,918
Other comprehensive income (loss) for the nine months ended September 30, 2017, net of income tax	-	-	-	-	-	-	(4,235)	(75)	(283)	(4,593)	(4,593)	(53)	(4,646)
Total comprehensive income (loss) for the nine months ended September 30, 2017	-	-	-	-	77,701	77,701	(4,235)	(75)	(283)	(4,593)	73,108	(836)	72,272
BALANCE AT SEPTEMBER 30, 2017	$ 2,610,585	$ 1,033	$ 345,050	$ 11,231	$ 164,498	$ 520,779	$ (15,824)	$ -	$ -	$ (15,824)	$ 3,116,573	$ 1,989	$ 3,118,562
BALANCE AT SEPTEMBER 30, 2017 (IN U.S. DOLLARS)	$ 86,272	$ 34	$ 11,403	$ 371	$ 5,436	$ 17,210	$ (523)	$ -	$ -	$ (523)	$ 102,993	$ 66	$ 103,059

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(With Deloitte & Touche review report dated November 6, 2017)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Nine Months Ended September 30		
	2017		2016
	NT$	US$ (Note)	NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	$ 99,545	$ 3,290	$ 295,630
Adjustments for:			
Depreciation expenses	62,428	2,063	58,963
Amortization expenses	5,950	197	5,355
Impairment loss recognized on trade receivables	574	19	3,897
Net gain on financial assets at fair value through profit or loss	(593)	(20)	(4,359)
Finance costs	17,584	581	21,088
Interest income	(1,319)	(44)	(1,452)
Dividend income	-	-	(2,600)
Share of loss of associates	24,612	813	49,389
Loss (gain) on disposal of property, plant and equipment	90	3	(87,396)
Net gain on disposal of available-for-sale financial assets	(29,304)	(968)	-
Write-down of inventories	3,142	104	1,678
Unrealized net loss on foreign currency exchange	1,432	47	3,109
Prepayment for lease	577	19	416
Changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	3,018	100	15,842
Notes receivable	16,883	558	6,955
Trade receivables	28,012	926	456,012
Trade receivables from related parties	15,083	498	9,518
Amounts due from customers for construction contracts	130,291	4,306	150,989
Inventories	(320,464)	(10,590)	59,803
Prepayments	30,912	1,021	(4,954)
Other current assets	3,324	110	(99,882)
Notes payable	887	29	(267)
Trade payables	(29,323)	(969)	(479,016)
Trade payables from related parties	6,783	224	2,426
Amounts due to customers for construction contracts	13,573	449	6,713
Other payables	(101,720)	(3,362)	(80,290)
Receipts in advance	(182,164)	(6,020)	8,076
Other current liabilities	(23,312)	(770)	1,746
Net defined benefit liabilities	(32,419)	(1,071)	(56,945)
Cash generated from (used in) operations	(255,918)	(8,457)	340,444
Interest received	1,319	44	1,452

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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		
	2017		2016
	NT$	US$ (Note)	NT$
Dividend received	$ -	$ -	$ 2,600
Interest paid	(17,451)	(577)	(21,365)
Income tax paid	(45,840)	(1,515)	(45,187)
Net cash generated from (used in) operating activities	(317,890)	(10,505)	277,944
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of available-for-sale financial assets	128,704	4,253	-
Proceeds from sale of debt investments with no active market	209	7	3,101
Purchase of financial assets measured at cost	(3,310)	(109)	-
Acquisition of investments accounted for using equity method	(1,385)	(46)	-
Payments for property, plant and equipment	(27,253)	(900)	(27,734)
Proceeds from disposal of property, plant and equipment	50	2	122,793
Increase in refundable deposits	(1,835)	(61)	(1,128)
Payments for intangible assets	(4,407)	(146)	(2,277)
Increase in prepayments	(4,896)	(162)	(6,791)
Net cash generated from investing activities	85,877	2,838	87,964
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments of) short-term borrowings	412,479	13,631	(173,180)
Proceeds from guarantee deposits received	664	22	3,254
Issue of cash dividend	(208,847)	(6,902)	(156,635)
Net cash generated from (used in) financing activities	204,296	6,751	(326,561)
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(4,081)	(135)	(11,734)

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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		
	2017		2016
	NT$	US$ (Note)	NT$
NET INCREASE (DECREASE) IN CASH	$ (31,798)	$ (1,051)	$ 27,613
CASH AT THE BEGINNING OF THE PERIOD	110,437	3,650	74,523
CASH AT THE END OF THE PERIOD	$ 78,639	$ 2,599	$ 102,136

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

(With Deloitte & Touche review report dated November 6, 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 November 6, 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 Company and the entities controlled by the Company (the "Group") 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" and related amendment

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 September 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, investments in debt instruments 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 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9. Furthermore, the Group will provide disclosures of the differences in amounts if the Group continues 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 9 "Prepayment Features with Negative Compensation"	January 1, 2019
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
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
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.

On initial application, the Group shall 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.

4) Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"

The amendments clarified that IFRS 9 shall be applied to account for other financial instruments in an associate or joint venture to which the equity method is not applied. These included long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

When the amendments become effective, the Group shall apply the amendments retrospectively. However, the Group may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

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**	**September 30, 2017**	**December 31, 2016**	**September 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 September 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

Please refer to the critical accounting judgments and key sources of estimation uncertainty of the consolidated financial statements for the year ended December 31, 2016.