Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the consolidated financial statements of affiliates as of and for the year ended December 31, 2017, under the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standard 10 "Consolidated Financial Statements". In addition, relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

FORTUNE ELECTRIC CO., LTD.

By

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March 23, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Fortune Electric Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Fortune Electric Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to the other matter section), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained and the report of other auditors are sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of Fortune Electric Co., Ltd. and its subsidiaries for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2017 are stated as follows:

Provision for Impairment of Trade Receivables

The balance of trade receivables (including trade receivables from related parties) of Fortune Electric Co., Ltd. and its subsidiaries as of December 31, 2017 was significant. According to IAS 39, the Group should review the carrying amounts of receivables to determine whether there is any indication of impairment loss and to recognize impairment loss on receivables as necessary. Since the provision for impairment loss on trade receivables is subject to management's judgment, it is identified as a key audit matter. Please refer to Notes 4, 5 and 12 to the consolidated financial statements for related accounting policy and the details of the information about provision for impairment of trade receivables.

In respect of this key audit matter, we assessed the reasonableness of the provision for impairment loss on trade receivables by evaluating the management's assumptions and requirements for providing allowance for doubtful accounts at year end, including verifying the materials used to estimate bad debts, recalculating the provision for bad debts, and comparing the impairment loss on receivables of the current year and the past years.

Cut-off of Revenue Recognition

According to IAS 18, an enterprise meets the criteria for revenue recognition only when it has transferred significant risk and rewards of ownership to the buyer. The Group's revenue is mainly generated under the terms of contracts which are mostly non-standard. The non-standard contracts make the timing of revenue recognition complex and key audit matter. Please refer to Note 4 to the consolidated financial statements for the accounting policy and details of the revenue recognition.

In respect of this key audit matter, we understood and tested the design and operating effectiveness of the key controls over the timing of revenue recognition and sample-tested revenue recognized before and after year end to check that proper cut-off procedures were performed and revenue was recognized in the correct periods by reviewing external cargo receipts and documents signed by entities to verify that the timing of revenue recognition meets the criteria.

Other Matter

The financial statements of Hitachi Fortune Transformer, Inc. which were used as basis for accounting under equity method were audited by other auditors. Therefore, our opinion regarding the investment under equity method, the related share of profit and losses recognized and relevant information of the invested company disclosed in the consolidated financial statements is based solely on the report of the other auditors. The investment in associate accounted for under the equity method not audited by us amounted to $10,899 thousand and $12,194 thousand, representing 4.59% and 5.65% of consolidated total assets as of December 31, 2017 and 2016, respectively. The related share of comprehensive loss from the associate under the equity method not audited by us amounted to $2,316 thousand and $2,926 thousand, representing (100.43%) and (37.36%) of the consolidated comprehensive income for the years ended December 31, 2017 and 2016, respectively.

We have also audited the parent company only financial statements of Fortune Electric Co., Ltd., as of and for the years ended December 31, 2017 and 2016 on which we have issued an unqualified opinion report.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations by the International Financial Reporting Interpretations Committee and Standing Interpretations Committee endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the Audit Committee, are responsible for overseeing the financial reporting process of the Group.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Group. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ching-Ting Yang and Tza-Li Gung.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 23, 2018

<u>*Notice to Readers*</u>

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017		2016
ASSETS	**NT$**	**US$ (Note)**	**NT$**
CURRENT ASSETS			
Cash (Notes 4 and 6)	$ 110,650	$ 3,718	$ 110,437
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 31)	126	4	5,533
Derivative financial assets for hedging (Notes 4, 9 and 31)	10	-	283
Debt investments with no active market - current (Notes 4, 11 and 33)	5,165	174	5,374
Notes receivable	82,229	2,763	50,057
Trade receivables from unrelated parties (Notes 4, 5, 12, 13 and 24)	2,807,155	94,326	2,207,719
Trade receivables from related parties (Notes 12 and 32)	2,067	70	15,083
Amounts due from customers for construction contracts (Notes 4, 5, 13 and 24)	334,278	11,233	442,166
Current tax assets (Notes 4, 5 and 28)	541	18	-
Inventories, net (Notes 4, 5 and 14)	1,781,574	59,865	1,916,983
Prepayments - current	71,044	2,387	90,945
Other current assets (Notes 19, 24 and 33)	49,469	1,662	73,264
Total current assets	5,244,308	176,220	4,917,844
NON-CURRENT ASSETS			
Available-for-sale financial assets (Notes 4, 8 and 31)	-	-	99,475
Financial assets measured at cost (Notes 4 and 10)	30,310	1,019	27,000
Debt investments with no active market - non-current (Notes 4, 11 and 33)	1,272	43	1,272
Investments accounted for using equity method (Notes 4 and 16)	325,400	10,934	393,270
Property, plant and equipment (Notes 4, 5, 17and 33)	1,367,183	45,940	1,412,493
Intangible assets (Notes 4 and 18)	9,735	327	12,766
Deferred tax assets (Notes 4, 5 and 28)	54,534	1,832	62,485
Prepayments - non-current	8,271	278	4,194
Refundable deposits (Notes 33)	4,071	137	2,478
Long-term prepayment for lease (Notes 19 and 33)	23,671	795	24,702
Total non-current assets	1,824,447	61,305	2,040,135
TOTAL	$ 7,068,755	$ 237,525	$ 6,957,979
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Short-term borrowings (Notes 20, 31 and 33)	$ 867,280	$ 29,142	$ 385,677
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 31)	311	11	2,515
Derivative financial liabilities for hedging (Notes 4, 9 and 31)	27	1	-
Notes payable	3,261	110	-
Trade payables (Notes 13, 21 and 24)	1,570,611	52,776	1,406,431
Amounts due to customers for construction contracts (Notes 4, 5, 13 and 24)	28	1	19,948
Other payables (Notes 22, 25 and 27)	191,596	6,438	264,771
Current tax liabilities (Notes 4, 5 and 28)	22	1	24,202
Advance receipts	235,057	7,898	490,232
Other current liabilities	38,215	1,284	52,014
Total current liabilities	2,906,408	97,662	2,645,790
NON-CURRENT LIABILITIES			
Long-term borrowings (Notes 20, 31 and 33)	741,800	24,926	741,800
Deferred tax liabilities (Notes 4, 5 and 28)	57,437	1,930	55,087
Net defined benefit liability (Notes 4, 5 and 23)	244,742	8,224	257,513
Other non-current liabilities	3,317	111	2,652
Total non-current liabilities	1,047,296	35,191	1,057,052
Total liabilities	3,953,704	132,853	3,702,842
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	2,610,585	87,721	2,610,585
Capital surplus	1,179	39	1,033
Retained earnings			
Legal reserve	345,050	11,595	319,994
Special reserve	11,231	377	18,469
Unappropriated earnings	160,916	5,407	313,462
Total retained earnings	517,197	17,379	651,925
Other equity			
Exchange differences on translating foreign operations	(15,234)	(512)	(11,589)
Unrealized gain or loss on available-for-sale financial assets	-	-	75
Cash flow hedges	(17)	-	283
Total other equity	(15,251)	(512)	(11,231)
Total equity attributable to owners of the Company	3,113,710	104,627	3,252,312
NON-CONTROLLING INTERESTS	1,341	45	2,825
Total equity	3,115,051	104,672	3,255,137
TOTAL	$ 7,068,755	$ 237,525	$ 6,957,979

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$29.76 to US$1.00 at December 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 and Touche auditors' report dated March 23, 2018)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands, Except Earnings Per Share)

	2017		2016
	NT$	US$ (Note)	NT$
OPERATING REVENUES (Notes 4, 13, 26, 32, 34 and 37)			
Sales	$ 5,486,822	$ 184,369	$ 5,175,606
Construction revenue	382,868	12,865	550,654
Total operating revenues	5,869,690	197,234	5,726,260
OPERATING COSTS (Notes 4, 14, 23, 27 and 32)			
Cost of goods sold	4,526,763	152,109	4,109,097
Construction cost	604,391	20,309	600,545
Total operating costs	5,131,154	172,418	4,709,642
GROSS PROFIT	738,536	24,816	1,016,618
OPERATING EXPENSES (Notes 23, 27, 32, 34 and 37)			
Selling and marketing expenses	365,168	12,270	462,513
General and administrative expenses	115,298	3,874	137,762
Research and development expenses	101,287	3,404	102,756
Total operating expenses	581,753	19,548	703,031
PROFIT FROM OPERATIONS	156,783	5,268	313,587
NON-OPERATING INCOME AND EXPENSES			
Government grants (Note 4)	11,279	379	9,827
Other gains and losses (Note 27)	36,693	1,233	86,708
Share of the loss of associates (Note 16)	(69,198)	(2,325)	(94,370)
Other income (Notes 27 and 32)	15,595	524	21,780
Net income on financial assets at fair value through profit or loss	(563)	(19)	(10,381)
Finance costs	(24,621)	(827)	(28,425)
Total non-operating income and expenses	(30,815)	(1,035)	(14,861)
PROFIT BEFORE INCOME TAX	125,968	4,233	298,726
INCOME TAX EXPENSE (Notes 4, 5 and 28)	34,683	1,166	50,979
NET PROFIT FOR THE YEAR	91,285	3,067	247,747

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands, Except Earnings Per Share)

	2017		2016
	NT$	US$ (Note)	NT$
OTHER COMPREHENSIVE INCOME AND LOSS			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans	$ (22,464)	$ (755)	$ (2,490)
Income tax relating to items that will not be classified subsequently to profit or loss	3,819	128	423
	(18,645)	(627)	(2,067)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(3,650)	(123)	(21,785)
Unrealized gain (loss) on available-for-sale financial assets	(75)	(2)	28,830
Cash flow hedges	(300)	(10)	(147)
	(4,025)	(135)	6,898
Total other comprehensive income and loss	(22,670)	(762)	4,831
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 68,615	$ 2,305	$ 252,578
NET PROFIT ATTRIBUTABLE TO:			
Owners of the Company	$ 92,764	$ 3,117	$ 250,555
Non-controlling interests	(1,479)	(50)	(2,808)
	$ 91,285	$ 3,067	$ 247,747
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company	$ 70,099	$ 2,355	$ 255,726
Non-controlling interests	(1,484)	(50)	(3,148)
	$ 68,615	$ 2,305	$ 252,578
EARNINGS PER SHARE (Note 29)			
From continuing operations			
Basic	$0.36	$0.01	$0.96
Diluted	$0.35	$0.01	$0.95

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands, Except Earnings Per Share)

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$29.76 to US$1.00 at December 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 and Touche auditors' report dated March 23, 2018) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	Equity Attributable to Owners of the Company												
			Retained Earnings (Notes 23 and 25)				Other Equity (Notes 4 and 9)						
	Share Capital (Note 25)	Capital Surplus (Note 25)	Legal Reserve	Special Reserve	Unappropri-ated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain or 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 distributed by the Company - NT$0.6 per share	-	-	-	-	(156,635)	(156,635)	-	-	-	-	(156,635)	-	(156,635)
	-	-	22,526	18,469	(197,630)	(156,635)	-	-	-	-	(156,635)	-	(156,635)
Net profit (loss) for the year ended December 31, 2016	-	-	-	-	250,555	250,555	-	-	-	-	250,555	(2,808)	247,747
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(2,067)	(2,067)	(21,445)	28,830	(147)	7,238	5,171	(340)	4,831
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	248,488	248,488	(21,445)	28,830	(147)	7,238	255,726	(3,148)	252,578
BALANCE AT DECEMBER 31, 2016	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)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(7,238)	7,238	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company - NT$0.8per share	-	-	-	-	(208,847)	(208,847)	-	-	-	-	(208,847)	-	(208,847)
	-	-	25,056	(7,238)	(226,665)	(208,847)	-	-	-	-	(208,847)	-	(208,847)
Unclaimed cash dividends	-	146	-	-	-	-	-	-	-	-	146	-	146
Net profit (loss) for the year ended December 31, 2017	-	-	-	-	92,764	92,764	-	-	-	-	92,764	(1,479)	91,285
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(18,645)	(18,645)	(3,645)	(75)	(300)	(4,020)	(22,665)	(5)	(22,670)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	74,119	74,119	(3,645)	(75)	(300)	(4,020)	70,099	(1,484)	68,615
BALANCE AT DECEMBER 31, 2017	$ 2,610,585	$ 1,179	$ 345,050	$ 11,231	$ 160,916	$ 517,197	$ (15,234)	$ -	$ (17)	$ (15,251)	$ 3,113,710	$ 1,341	$ 3,115,051
BALANCE AT DECEMBER 31, 2017 (IN U.S. DOLLARS)	$ 87,721	$ 39	$ 11,595	$ 377	$ 5,407	$ 17,379	$ (512)	$ -	$ -	$ (512)	$ 104,627	$ 45	$ 104,672

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$29.76 to US$1.00 at December 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 and Touche auditors' report dated March 23, 2018)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017		2016
	NT$	US$ (Note)	NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	$ 125,968	$ 4,233	$ 298,726
Adjustments for:			
Depreciation expenses	82,655	2,777	81,590
Amortization expenses	7,929	266	7,279
Reversal of impairment loss on trade receivables	(4,824)	(162)	(4,606)
Net gain or loss on financial assets at fair value through profit or loss	185	6	(3,018)
Finance costs	24,621	827	28,425
Interest income	(1,484)	(50)	(2,404)
Dividend income	-	-	(2,600)
Share of loss of associate	69,198	2,325	94,370
Gain or loss on disposal of property, plant and equipment	128	4	(84,840)
Net gain on disposal of available-for-sale financial assets	(29,304)	(985)	-
Write-down of inventories	106	4	4,300
Unrealized net gain on foreign currency exchange	(1,280)	(43)	(1,024)
Prepayment for lease	752	25	293
Changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	3,018	102	15,842
Notes receivable	(32,174)	(1,081)	(22,821)
Trade receivables	(600,462)	(20,177)	423,355
Trade receivables from related parties	24,545	825	(5,565)
Amounts due from customers for construction contracts	107,888	3,625	203,427
Inventories	134,731	4,527	133,895
Prepayments - current	19,637	660	(9,102)
Other current assets	23,787	799	(9,344)
Notes payable	3,261	110	(267)
Trade payables	154,988	5,208	(622,531)
Amounts due to customers for construction contracts	(19,920)	(669)	16,369
Other payables	(70,107)	(2,356)	394
Receipts in advance	(254,969)	(8,567)	77,531
Other current liabilities	(13,799)	(463)	3,997
Net defined benefit liability	(35,235)	(1,184)	(59,232)
Other non-current liabilities	-	-	(46)
Cash generated from (used in) operations	(280,161)	(9,414)	562,393
Interest received	1,484	50	2,404
Dividend received	-	-	2,600
Interest paid	(25,482)	(856)	(29,449)
Income tax paid	(45,662)	(1,534)	(30,871)
Net cash generated from (used in) operating activities	(349,821)	(11,754)	507,077

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017		2016
	NT$	US$ (Note)	NT$
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of available-for-sale financial assets	$ 128,704	$ 4,325	$ -
Proceeds on sale of debt investments with no active market	209	7	3,101
Purchase of financial assets measured at cost	(3,310)	(111)	-
Acquisition of investments accounted for using equity method	(1,385)	(47)	-
Payments for property, plant and equipment	(37,564)	(1,262)	(72,795)
Proceeds from disposal of property, plant and equipment	50	1	121,305
Increase in refundable deposits	(1,616)	(54)	(1,354)
Payments for intangible assets	(4,902)	(165)	(5,753)
Increase in prepayments - non-current	(4,077)	(137)	(974)
Net cash generated from (used in) investing activities	76,109	2,557	43,530
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments of) short-term borrowings	484,301	16,274	(342,318)
Proceeds from guarantee deposits received	665	22	797
Issue of cash dividends	(208,847)	(7,018)	(156,635)
Unclaimed cash dividends	146	5	-
Net cash generated from (used in) financing activities	276,265	9,283	(498,156)
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(2,340)	(79)	(16,537)
NET INCREASE IN CASH	213	7	35,914
CASH AT THE BEGINNING OF THE YEAR	110,437	3,711	74,523
CASH AT THE END OF THE YEAR	$ 110,650	$ 3,718	$ 110,437

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$29.76 to US$1.00 at December 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 and Touche auditors' report dated March 23, 2018) (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 switches 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 Chinese edition 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 approved by to the Company's board of directors on March 23, 2018.

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 did not have any material impact on the company and the entities controled by the company's (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 amendments becomes effective in 2017, the short-term receivables and payables with no stated interest rate are 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 the 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 when:

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

b) 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 of the Group, 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 transactions. If the transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount or balance, such transactions 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 conditions after a business combination and the expected benefits at the acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 32 for the related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS 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
Amendments 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 clarifies 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 in accordance with IFRS 12. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale in accordance with IFRS 5. The Group will apply the aforementioned amendment retrospectively.

2) IFRS 9 “Financial Instruments” and related amendments

Classification, 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 any impairment loss recognized in profit or loss. 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 collecting contractual cash flows and selling 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 gains or losses 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.

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Unlisted shares measured at cost will be measured at fair value instead.

b) Debt investments classified as pledged deposits with original maturity date exceeding 3 months of 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 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 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 in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables. In relation to debt instrument investments and financial guarantee contracts, the Group will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, 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.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017(NTD)	**Adjustments Arising from Initial Application (NTD)**	**Adjusted Carrying Amount as of January 1, 2018 (NTD)**
Impact on assets, liabilities and equity			
Financial assets at fair value through other comprehensive income	$ -	$ 32,735	$ 32,735
Financial assets measured at cost	30,310	(30,310)	-
Total effect on assets	$ 30,310	$ 2,425	$ 32,735
Other equity	$ (15,251)	$ 2,425	$ (12,826)
Total effect on equity	$ (15,251)	$ 2,425	$ (12,826)

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.

The 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.

2) 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 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.

3) 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 1)**
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
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 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
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 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

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

The amendments stipulate 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 over 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 leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the 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.

5) Annual Improvements to IFRSs 2015-2017 Cycle

Several standards, including IFRS 3, IFRS 11, IAS 12 and IAS 23 "Borrowing Costs", were amended in this annual improvement. IAS 23 was amended to clarify that, if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendment shall be applied prospectively.

6) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

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

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

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 and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

The Group engages in the electrical equipment works contracting business, which has an operating cycle of over one year. Thus, the normal operating cycle is applied when considering the classification of the Group’s engineering contract - related assets and liabilities.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

See Note 15, Tables 4 and 5 for the detailed information of subsidiaries including the percentage of ownership and main business.

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including subsidiaries and associates in other countries that use currencies which are different from the currency of the company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income attributed to the owners of the Company and non-controlling interests as appropriate.

f. Inventories

Inventories consist of raw materials, work in process and finished goods and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

g. Investment in associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary.

The Group uses the equity method to account for its investments in associates.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes its share of changes in equity of associate.

When the Group subscribes for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

j. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is held for trading.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 31.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

iii. Loans and receivables

Loans and receivables (including trade receivables, cash and debt investments with no active market, etc.) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience in the collection of payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Except financial liabilities at fair value through profit or loss, all the financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are classified as at fair value through profit or loss when the financial liability is held for trading.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 31.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

l. Hedge accounting

The Group designates certain hedging instruments as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

m. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale based on the seller’s reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

2) Rendering of services

Service income is recognized when service is provided.

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) Dividend and interest income

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

n. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent the amount can be measured reliably and its receipt is considered probable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as advance receipts. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade receivables.

o. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rents under operating leases are recognized as income in the period in which the contingency is removed and the income is earned.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents under operating leases are recognized as an expense in the period in which the expense is incurred.

p. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

q. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in associates, except when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate are revised if the revisions affect only that period or in the period of the revision and future periods if the revisions affect both current and future periods.

a. Income taxes

The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

b. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

c. Fair value measurements and valuation processes

If some of the Group's assets and liabilities measured at fair value have no quoted prices in active markets, the Group's management uses its judgement to determine and whether to engage third party qualified valuers the appropriate valuation techniques for fair value measurements.

Where Level 1 inputs are not available, the Group or engaged valuers would determine appropriate inputs by referring to the analyses of the financial position and the operation results of investees, recent transaction prices, prices of same equity instruments not quoted in active markets, quoted prices of similar instruments in active markets, valuation multiples of comparable entities and market prices or rates and specific features of derivatives in the vicinity of the Group's investment properties. If the actual changes of inputs in the future differ from expectation, fair value might vary accordingly. The Group updates inputs every quarter to confirm the appropriateness of fair value measurement.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities was disclosed in Note 31.

d. Useful lives of property, plant and equipment

As mentioned in Note 4,h., the estimated useful lives of property, plant and equipment are reviewed at the end of each reporting period.

e. Write-down of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

f. Recognition and measurement of defined benefit plans

Net defined benefit liabilities and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of related the expense and the liability.

g. Construction contracts

Contract revenue and costs are recognized by reference to the stage of completion of each contract. The stage of completion of a contract is measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentives are included in contract revenue to the extent that the amount can be measured reliably and its receipt is considered probable.

Estimated total contract costs and contracted items are assessed and determined by the management based on the nature of activities, expected sub-contracting charges, construction periods, processes, methods, etc. for each construction contract. Changes in these estimates might affect the calculation of the percentage of completion and related profits from construction contracts. Refer to Note 13 for details on construction contracts.

6. CASH

	December 31	
	2017	**2016**
Cash on hand	$ 24	$ 22
Checking accounts and demand deposits	3,694	3,402
	$ 3,718	$ 3,424

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	December 31	
	2017	**2016**
Bank balance	0.001%-0.35%	0.001%-0.35%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	**2016**
Derivative financial assets		
Foreign exchange forward contracts	$ 4	$ 172
Derivative financial liabilities		
Foreign exchange forward contracts	$ (11)	$ (78)

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	**Maturity Date**	**Notional Amount (In Thousands)**
December 31, 2017			
Buy	NTD/USD	2018.01.09-2018.06.15	NTD51,555/USD1,726
Buy	NTD/EUR	2018.02.26	NTD649/EUR18
Sell	USD/NTD	2018.01.24	USD1,358/NTD40,160
December 31, 2016			
Buy	NTD/USD	2017.02.01-2017.10.16	NTD157,876/USD5,091
Buy	NTD/EUR	2017.04.17	NTD2,627/EUR76
Sell	USD/NTD	2017.01.17-2017.01.20	USD4,183/NTD132,443

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness; therefore, they were not accounted for by using hedge accounting.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	**2016**
Domestic listed shares	$ -	$ 3,085

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2017	2016
Derivative financial assets under hedges accounting		
Cash flow hedges - foreign exchange forward contracts	$ -	$ 9
Derivative financial liabilities under hedges accounting		
Cash flow hedges - foreign exchange forward contracts	$ 1	$ -

The Group's hedge strategy is to enter foreign exchange forward contracts to manage its foreign currency exposure to certain foreign currency receipts and payments. When forecast sales and purchases actually take place, the carrying amounts of the non-financial hedged items will be adjusted accordingly.

The terms of the foreign exchange forward contracts were negotiated to match the terms of the respective designated hedged items. The outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2017			
Buy	NTD/USD	2018.06.15	NTD6,218/USD210
Sell	USD/NTD	2018.01.24	USD102/NTD3,048
December 31, 2016			
Buy	NTD/USD	2017.05.31-2017.08.15	NTD42,095/USD1,326
Sell	USD/NTD	2017.01.17	USD77/NTD2,451

The Group sold transformers to clients in the United States and signed material purchase contracts with suppliers. All the transactions between two parties were under foreign exchange forward contracts to avoid too much exchange rate exposure to forecast sales and purchases. Those foreign exchange forward contracts were designated as cash flow hedges. During 2017 and 2016, fair value losses of $10 thousand and $5 thousand from exchange rate changes of forecast sales and purchases were recognized respectively in other comprehensive income. The forecast sales and purchases were expected to occur by that time the amounts originally deferred and recognized in equity will be reclassified to profit or loss.

10. FINANCIAL ASSETS MEASURED AT COST

	December 31	
	2017	2016
Classified according to financial asset measurement categories		
Domestic unlisted common shares	$ 1,019	$ 837

Management believed that the above unlisted equity investments held by the Group have fair value that cannot be reliably measured due to the very significant range of reasonable fair value estimates; therefore, they were measured at cost less impairment at the end of the reporting period.

11. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2017	2016
Pledged time deposits		
Current	$ 174	$ 167
Non-current	43	39
	$ 217	$ 206

Refer to Note 33 for information relating to debt investments with no active market pledged as security.

12. TRADE RECEIVABLES

	December 31	
	2017	2016
Trade receivables	$ 95,062	$ 69,287
Less: Allowance for impairment loss	(736)	(831)
	$ 94,326	$ 68,456
Trade receivables from related parties	$ 70	$ 468

The average credit period for sales of goods was 90-180 days. Impairment of trade receivables (including trade receivables from related parties) was assessed by reference to the collectability of receivables on individual account basis, and by account aging analysis, historical experience and current financial condition of customers.

The aging of receivables (including trade receivables from related parties) was as follows:

	December 31	
	2017	2016
0-90 days	$ 58,868	$ 35,063
91-150 days	6,237	6,592
151-180 days	603	1,427
181-365 days	14,922	11,182
366-730 days	8,225	10,326
More than 730 days	6,277	5,165
	$ 95,132	$ 69,755

The above aging of trade receivables was presented based on the invoice date.

There were no receivables (including trade receivables from related parties) that were past due but not impaired as of December 31, 2017 and 2016.

The movements of the allowance for doubtful trade receivables (including trade receivables from related parties) were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	$ 718	$ 250	$ 968
Impairment losses recognized (reversed) on receivables	(219)	76	(143)
Foreign exchange translation gains and losses	13	(7)	6
Balance at December 31, 2016	$ 512	$ 319	$ 831
Balance at January 1, 2017	$ 512	$ 319	$ 831
Impairment losses recognized (reversed) on receivables	(222)	60	(162)
Foreign exchange translation gains and losses	43	24	67
Balance at December 31, 2017	$ 333	$ 403	$ 736

Retentions receivable from construction contracts which are included in the trade receivables are in the amounts of $11,634 thousand and $8,841 thousand as of December 31, 2017 and 2016, respectively. Retentions receivable from construction contracts bear no interest and are expected to remain as receivables until the satisfaction of conditions specified in each contract for the payment of such amounts during the retention periods, which are within the normal operating cycle of the Group, usually more than 1 year after the reporting period. Refer to Note 13 for details of construction contracts.

13. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONSTRUCTION CONTRACTS

	December 31	
	2017	2016
Amount due from customers for construction contracts		
Construction costs incurred plus recognized profits less recognized losses to date	$ 44,095	$ 67,948
Less: Progress billings	(32,862)	(54,237)
	$ 11,233	$ 13,711
Amount due to customers for construction contracts		
Construction costs incurred plus recognized profits less recognized losses to date	$ 12,606	$ 1,129
Less: Progress billings	(12,607)	(1,748)
	$ (1)	$ (619)
Retentions receivable (included in trade receivables)	$ 11,634	$ 8,841
Retentions payable (included in trade payables)	$ 7,780	$ 9,551

The contract revenue recognized in the years ended December 31, 2017 and 2016 was $12,865 thousand and $17,074 thousand, respectively.

14. INVENTORIES

	December 31	
	2017	2016
Finished goods	$ 7,334	$ 10,348
Work in progress	38,682	36,864
Raw materials	13,849	12,229
	$ 59,865	$ 59,441

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was $151,732 thousand and $127,053 thousand, respectively.

The cost of goods sold for the years ended December 31, 2017 and 2016 included write-down of inventories of $4 thousand and $133 thousand, respectively.

15. SUBSIDIARIES

Subsidiaries included in consolidated financial statements:

			% of Ownership December 31	
Investor	Investee	Main Business	2017	2016
Fortune Electric Co., Ltd.	Power Energy International Ltd.	Trade business, Investment Holding, Agents business	100.00	100.00
	Fortune Electric America Inc.	Agents business	100.00	100.00
Power Energy International Ltd.	Fortune Electric (Wuhan) Ltd.	Transformers, capacitors, power distribution equipment manufacturing	100.00	100.00
Fortune Electric (Wuhan) Ltd.	Wuhan Huarong Co., Ltd.	Production and sale of transformer tank, machining, mechanical and electrical products, metal surface corrosion treatment	60.00	60.00
	Wuhan Fortune Trade Co., Ltd.	Trade business	100.00	100.00

16. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in Associate

	December 31	
	2017	2016
Material associate		
Hitachi Fortune Transformer, Inc.	$ 10,899	$ 12,194
Associates that are not individually material		
E-Total Link	35	-
	$ 10,934	$ 12,194

a. Material associates

	Proportion of Ownership and Voting Rights	
	December 31	
	2017	2016
Hitachi Fortune Transformer, Inc.	40.00%	40.00%

The Group and Hitachi, Ltd. jointly established Hitachi Fortune Transformer, Inc. (Hitachi Fortune Company) with authorized shares in the amount of $47,446 thousand. The Group invested $18,978 thousand and acquired 40% ownership.

For the main business and products, location and registration information of above associate, please refer to Table 4.

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of the investment were based on the associate's financial statements audited by auditors for the same years.

The associate mentioned above is accounted for using the equity method.

The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

	December 31	
	2017	2016
Current assets	$ 8,535	$ 4,340
Non-current assets	42,967	40,322
Current liabilities	(24,254)	(14,176)
Equity	$ 27,248	$ 30,486
Proportion of the Group's ownership	40.00%	40.00%
Carrying amount	$ 10,899	$ 12,194

	For the Year Ended December 31	
	2017	2016
Revenue	$ 5,588	$ 3,290
Net loss for the year	$ 5,789	$ 7,315
Total comprehensive loss for the year	$ 5,789	$ 7,315

b. Aggregate information of associates that are not individually material

The Group, Hamadenk Co., Ltd. and other companies jointly established E-Total Link in 2017. The Group invested $47 thousand and acquired 25% ownership.

	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Net loss for the year	$ 10	$ -
Other comprehensive loss	2	-
Total comprehensive loss for the year	$ 12	$ -

For the main business and products, location and registration information of above associate, please refer to Table 4.

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments was based on the associate's financial statements audited by auditors for the same years.

17. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Photovoltaic Solar Equipment	Other Equipment	Total
Cost						
Balance at January 1, 2016	$ 20,348	$ 21,920	$ 34,741	$ 4,566	$ 4,385	$ 85,960
Additions	-	377	1,372	42	466	2,257
Disposals	(995)	(439)	(468)	-	(188)	(2,090)
Effect of foreign currency exchange differences	363	245	563	82	43	1,296
Balance at December 31, 2016	$ 19,716	$ 22,103	$ 36,208	$ 4,690	$ 4,706	$ 87,423
Accumulated depreciation						
Balance at January 1, 2016	$ -	$ 10,268	$ 27,841	$ 908	$ 2,325	$ 41,342
Depreciation expense	-	622	1,357	235	316	2,530
Disposals	-	(353)	(426)	-	(181)	(960)
Effect of foreign currency exchange differences	-	94	581	17	21	713
Balance at December 31, 2016	$ -	$ 10,631	$ 29,353	$ 1,160	$ 2,481	$ 43,625
Carrying amounts at December 31, 2016	$ 19,716	$ 11,472	$ 6,855	$ 3,530	$ 2,225	$ 43,798
Cost						
Balance at January 1, 2017	$ 19,716	$ 22,103	$ 36,208	$ 4,690	$ 4,706	$ 87,423
Additions	-	327	533	11	391	1,262
Disposals	-	-	(468)	-	(138)	(606)
Transfer (Note)	-	-	24	-	-	24
Effect of foreign currency exchange differences	1,649	1,828	2,975	393	386	7,231
Balance at December 31, 2017	$ 21,365	$ 24,258	$ 39,272	$ 5,094	$ 5,345	$ 95,334

(Continued)

	Freehold Land	Buildings	Equipment	Photovoltaic Solar Equipment	Other Equipment	Total
Accumulated depreciation						
Balance at January 1, 2017	$ -	$ 10,631	$ 29,353	$ 1,160	$ 2,481	$ 43,625
Depreciation expense	-	710	1,458	258	351	2,777
Disposals	-	-	(463)	-	(138)	(601)
Effect of foreign currency exchange differences	-	875	2,418	97	203	3,593
Balance at December 31, 2017	$ -	$ 12,216	$ 32,766	$ 1,515	$ 2,897	$ 49,394
Carrying amounts at December 31, 2017	$ 21,365	$ 12,042	$ 6,506	$ 3,579	$ 2,448	$ 45,940

(Concluded)

Note: Transferred from inventories to equipment.

No impairment assessment was performed for the years ended December 31, 2017 and 2016 as there was no indication of impairment.

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Building	
Main buildings	55 years
Electromechanical power equipment	3 years
Equipment	2-15 years
Photovoltaic solar equipment	8-20 years
Other equipment	3-15 years

Refer to Note 33 for the carrying amount of property, plant and equipment pledged by the Group to secure borrowings granted to the Group.

18. INTANGIBLE ASSETS

	Computer Software
Cost	
Balance at January 1, 2016	$ 942
Additions	178
Net exchange differences	17
Balance at December 31, 2016	$ 1,137

(Continued)

	Computer Software
Accumulated depreciation	
Balance at January 1, 2016	$ 507
Amortization expenses	226
Net exchange differences	8
Balance at December 31, 2016	$ 741
Carrying amount at December 31, 2016	$ 396
Cost	
Balance at January 1, 2017	$ 1,137
Additions	165
Net exchange differences	94
Balance at December 31, 2017	$ 1,396
Accumulated depreciation	
Balance at January 1, 2017	$ 741
Amortization expenses	266
Net exchange differences	62
Balance at December 31, 2017	$ 1,069
Carrying amount at December 31, 2017	$ 327

(Concluded)

The above item of intangible asset is amortized on a straight-line basis over 3 years, the estimated useful life of the asset.

19. PREPAYMENTS FOR LEASE

	December 31	
	2017	2016
Current (included in other current assets)	$ 23	$ 22
Non-current	795	766
	$ 818	$ 788

Prepaid lease payments include the right of using land in mainland China.

Refer to Note 33 for the carrying amount of prepayments for lease that had been pledged by the Group to secure borrowings granted to the Group.

20. BORROWINGS

a. Short-term borrowings

	December 31	
	2017	2016
Secured borrowings (Note 33)		
Bank loans	$ 9,145	$ 7,011
Usance letter of credit	2,335	261
	11,480	7,272
Unsecured borrowings		
Line of credit borrowings	14,852	1,324
Usance letter of credit	2,810	3,362
	17,662	4,686
	$ 29,142	$ 11,958

The range of weighted average effective interest rate on bank loans was 0.47%-5.00% and 0.49%-4.35% per annum as of December 31, 2017 and 2016, respectively.

b. Long-term borrowings

	December 31	
	2017	2016
Secured borrowings (Note 33)		
Bank of Taiwan	$ 16,801	$ 15,504
Mega International Commercial Bank	8,125	7,498
	$ 24,926	$ 23,002

The original term of the borrowings from Bank of Taiwan was from December 4, 2013 to February 25, 2018, and the company negotiated the new loan period from March 29, 2017 to March 29, 2019 with the bank. The weighted average effective interest rate of the borrowings was 1.26% and 1.27% per annum for the years ended December 31, 2017 and 2016, respectively.

The original term of the borrowings from Mega International Commercial Bank was from October 7, 2014 to October 7, 2017, and the company negotiated the new loan period from October 17, 2016 to October 17, 2019 with the bank. The weighted average effective interest rate of the borrowings was both 1.47% per annum for the years ended December 31, 2017 and 2016.

21. TRADE PAYABLES

	December 31	
	2017	2016
Operating	$ 52,776	$ 43,610

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Retentions payable on construction contracts which are included in trade payables are in the amounts of $7,780 thousand and $9,551 thousand as of December 31, 2017 and 2016, respectively. Retentions payable on construction contracts bear no interest and are expected to be paid upon the satisfaction of conditions specified in each contract for the payment of such amounts during retention periods, which are within the normal operating cycle of the Group, usually more than 1 year after the reporting period. Refer to Note 13 for details of construction contracts.

22. OTHER PAYABLES

	December 31	
	2017	**2016**
Accrued payroll	$ 1,977	$ 2,556
Export payable	1,497	1,905
Design fees payable	810	720
Commission payable	418	436
Employee’s compensation and remuneration of directors and supervisors’ payable	381	572
Interest payable	60	65
Others	1,295	1,956
	$ 6,438	$ 8,210

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

The Group’s subsidiaries in the United States and China are members of state-managed retirement benefit plans operated by the local governments. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plans is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Group in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Group contributes amounts equal to 10% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of defined benefit obligation	$ 13,278	$ 11,556
Fair value of plan assets	(5,054)	(3,571)
Net defined benefit liability	$ 8,224	$ 7,985

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2016	$ 11,298	$ (1,724)	$ 9,574
Current service cost	204	-	204
Net interest expense	160	-	160
Expected return on plan assets	-	(27)	(27)
Recognized in profit or loss	364	(27)	337
Remeasurement			
Return on plan assets	-	10	10
Actuarial loss - changes in demographic assumptions	134	-	134
Actuarial gain - experience adjustments	(67)	-	(67)
Recognized in other comprehensive income	67	10	77
Contributions from the employer	-	(2,173)	(2,173)
Benefits paid	(375)	375	-
Effects of foreign currency exchange differences	202	(32)	170
Balance at December 31, 2016	$ 11,556	$ (3,571)	$ 7,985
Balance at January 1, 2017	$ 11,556	$ (3,571)	$ 7,985
Current service cost	202	-	202
Net interest expense	161	-	161
Expected return on plan assets	-	(53)	(53)
Recognized in profit or loss	363	(53)	310
Remeasurement			
Return on plan assets	-	14	14
Actuarial loss - changes in demographic assumptions	218	-	218
Actuarial loss - experience adjustments	523	-	523
Recognized in other comprehensive income	741	14	755
Contributions from the employer	-	(1,494)	(1,494)
Benefits paid	(349)	349	-
Effects of foreign currency exchange differences	967	(299)	668
Balance at December 31, 2017	$ 13,278	$ (5,054)	$ 8,224

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	For the Year Ended December 31	
	2017	**2016**
Operating costs	$ 197	$ 216
Selling and marketing expenses	44	49
General and administrative expenses	41	42
Research and development expenses	28	30
	$ 310	$ 337

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2017	**2016**
Discount rate	1.15%	1.30%
Expected return rate of plan assets	1.15%	1.30%
Expected rate of salary increase	1.50%	1.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would decrease (increase) as follows:

	December 31	
	2017	**2016**
Discount rate		
0.25% increase	$ (360)	$ (330)
0.25% decrease	$ 374	$ 344
Expected rate of salary increase		
0.25% increase	$ 366	$ 337
0.25% decrease	$ (354)	$ (325)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	2016
The expected contributions to the plan for the next year	$ 690	$ 617
The average duration of the defined benefit obligation	11 years	12 years

24. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The current and non-current classification of the Group's assets and liabilities relating to construction business were based on its operating cycle. The amount expected to be recovered or settled within 1 year after reporting period and more than 1 year after reporting period for related assets and liabilities are as follows:

	December 31, 2017		
	Within 1 Year	More Than 1 Year	Total
Assets			
Refundable deposit (included in other current assets)	$ 2	$ 12	$ 14
Amounts due from customers for construction contracts	$ 5,972	$ 5,261	$ 11,233
Retentions receivable (included in trade receivables)	$ 5,084	$ 6,550	$ 11,634
Liabilities			
Amounts due to customers for construction contracts	$ -	$ 1	$ 1
Retentions payable (included in trade payables)	$ 6,640	$ 1,140	$ 7,780

	December 31, 2016		
	Within 1 Year	More Than 1 Year	Total
Assets			
Refundable deposit (included in other current assets)	$ 3	$ 6	$ 9
Amounts due from customers for construction contracts	$ 8,702	$ 5,009	$ 13,711
Retentions receivable (included in trade receivables)	$ 5,576	$ 3,265	$ 8,841
Liabilities			
Amounts due to customers for construction contracts	$ -	$ 619	$ 619
Retentions payable (included in trade payables)	$ 9,067	$ 484	$ 9,551

25. EQUITY

a. Share capital - ordinary shares

	December 31	
	2017	2016
Number of shares authorized (in thousands)	275,000	275,000
Shares authorized	$ 92,406	$ 85,271
Number of shares issued and fully paid (in thousands)	261,059	261,059
Shares issued	$ 87,721	$ 80,948

b. Capital surplus

	December 31	
	2017	2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Arising from treasury share transactions	$ 34	$ 32
Unclaimed cash dividends	5	-
	$ 39	$ 32

Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital, subject to a limit within a certain percentage of the Company's capital surplus per year.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 13, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to Note 27,d.

The Company is currently at the growing stage. The Company distributes stock dividend and cash dividend after taking into account its future business needs and long term financial plan. In addition, the appropriation for cash dividend should not be less than 25% of the annual dividend distributed.

Items referred to under Rule No. 1010012865 and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2016 and 2015 have been approved in the shareholders' meetings on June 14, 2017 and June 13, 2016, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31		Dividends Per Share (Dollar) For the Year Ended December 31	
	2016	2015	2016	2015
Appropriation for legal reserve	$ 777	$ 686		
Appropriation for (reverse) special reserve	(224)	563		
Appropriation for cash dividends	6,476	4,772	$ 0.02	$ 0.02

The appropriations of earnings for 2017 had been proposed by the Company's board of directors on March 23, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (Dollar)
Appropriation for legal reserve	$ 312	
Appropriation for special reserve	135	
Appropriation for cash dividends	3,509	$0.01

The appropriations of earnings for 2017 are subject to the resolution in the shareholders' meeting expected to be held on June 12, 2018.

26. REVENUE

	For the Year Ended December 31	
	2017	2016
Transformers	$ 120,144	$ 107,238
Distribution panels	30,514	18,084
Distribution equipment	8,697	14,581
Construction contract	12,865	17,074
Power selling	375	328
Others	24,639	20,253
	$ 197,234	$ 177,558

27. NET PROFIT

Net profit from continuing operations:

a. Other gains and losses

	December 31	
	2017	2016
Net gain on disposal of available-for-sale financial assets	$ 985	$ -
Net foreign exchange gains (losses)	117	(299)
Gain or loss on disposal of property, plant and equipment	(4)	2,631
Others	135	357
	$ 1,233	$ 2,689

b. Other income

	For the Year Ended December 31	
	2017	2016
Export tax rebate income	$ 410	$ 436
Interest income	50	74
Rental income	49	13
Claims income	15	71
Dividends	-	81
	$ 524	$ 675

c. Depreciation, amortization and employee benefits expense

	2017			2016		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Employee benefit expenses						
Defined contribution plans	$ 481	$ 263	$ 744	$ 494	$ 258	$ 752
Defined benefit plans	197	113	310	216	121	337
Other employee benefits	12,028	8,279	20,307	11,218	7,714	18,932
	$ 12,706	$ 8,655	$ 21,361	$ 11,928	$ 8,093	$ 20,021
Depreciation expense	$ 2,436	$ 341	$ 2,777	$ 2,160	$ 370	$ 2,530
Amortization expense	$ 84	$ 182	$ 266	$ 72	$ 154	$ 226

d. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 3% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016 which have been approved by the Company's board of directors on March 23, 2018 and March 24, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	**2016**
Employees' compensation	6.65%	5.70%
Remuneration of directors and supervisors	1.51%	1.07%

Amount

	For the Year Ended December 31	
	2017	**2016**
	Cash	**Cash**
Employees' compensation	$ 310	$ 572
Remuneration of directors and supervisors	71	107

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

e. Gain or loss on foreign currency exchange

	For the Year Ended December 31	
	2017	**2016**
Foreign exchange gains	$ 724	$ 1,229
Foreign exchange losses	(607)	(1,528)
Net gain (loss)	$ 117	$ (299)

28. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of tax expense recognized in profit or loss were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	$ 695	$ 1,367
Income tax on unappropriated earnings	73	-
Adjustments for prior periods	(75)	(190)
	693	1,177
Deferred tax		
In respect of the current year	417	82
Adjustments for prior periods	56	322
	473	404
Income tax expense recognized in profit or loss	$ 1,166	$ 1,581

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2017	2016
Profit before tax from continuing operations	$ 4,233	$ 9,263
Income tax expense calculated at the statutory rate	$ 715	$ 1,507
Nondeductible expenses in determining taxable income	749	534
Tax-exempt income	(222)	(462)
Income tax on unappropriated earnings	73	-
Deductible investment credits of current period	(130)	(130)
Adjustments to prior years' tax	(19)	132
Income tax expense recognized in profit or loss	$ 1,166	$ 1,581

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in the ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by $294 thousand and $341 thousand, respectively, in 2018.

As the status of 2018 appropriations of earnings is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Current tax assets and liabilities

	December 31 2017	December 31 2016
Current tax assets		
Tax refund receivable	$ 18	$ -
Current tax liabilities		
Income tax payable	$ 1	$ 750

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com-prehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Defined benefit plans	$ 1,166	$ -	$ 128	$ 97	$ 1,391
Impairment loss of financial assets	263	(284)	-	21	-
Provisions over limit	192	(201)	-	16	7
Inventory write-downs	118	(2)	-	8	124
Allowance for impaired receivables	52	(12)	-	4	44
Deferred revenue	51	(56)	-	5	-
Others	96	161	-	9	266
	$ 1,938	$ (394)	$ 128	$ 160	$ 1,832
Deferred tax liabilities					
Land value increment tax	$ 1,071	$ -	$ -	$ 89	$ 1,160
Share of profit of subsidiaries	610	103	-	51	764
Unrealized exchange gains	2	3	-	-	5
Deferred revenue	-	1	-	-	1
Others	25	(27)	-	2	-
	$ 1,708	$ 80	$ -	$ 142	$ 1,930

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com-prehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Defined benefit plans	$ 1,153	$ -	$ 13	$ -	$ 1,166
Deferred revenue	511	(460)	-	-	51
Provisions over limit	504	(312)	-	-	192
Impairment loss of financial assets	263	-	-	-	263
Inventory write-downs	92	33	-	(7)	118
Allowance for impaired receivables	58	(2)	-	(4)	52
Unrealized exchange loss	28	(28)	-	-	-
Others	8	88			96
	$ 2,617	$ (681)	$ 13	$ (11)	$ 1,938
Deferred tax liabilities					
Land value increment tax	$ 1,071	$ -	$ -	$ -	$ 1,071
Share of profit of subsidiaries	820	(210)	-	-	610
Unrealized exchange gains	-	2	-	-	2
Others	95	(69)	-	(1)	25
	$ 1,986	$ (277)	$ -	$ (1)	$ 1,708

d. Integrated income tax

	December 31, 2016
Unappropriated earnings generated on and after January 1, 1998 (Note)	$ 9,720
Imputation credits accounts (Note)	$ 1,410

	For the Year Ended December 31, 2016
Creditable ratio for distribution of earnings (Note)	23.18%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

e. Income tax assessments

The Company’s tax returns through 2015 have been assessed by the tax authorities.

29. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share from continuing operations were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2017	**2016**
Profit for the period attributable to owners of the Company	$ 3,117	$ 7,769

Weighted average number of ordinary shares outstanding (in thousand shares):

	For the Year Ended December 31	
	2017	**2016**
Weighted average number of ordinary shares in computation of basic earnings per share	261,059	261,059
Effect of potentially dilutive ordinary shares:		
Employees' compensation	712	1,322
Weighted average number of ordinary shares used in the computation of diluted earnings per share	261,771	262,381

Since the Group offered to settle compensation paid to employees in cash or shares, the Group assumed the entire amount of the compensation will be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

30. CAPITAL MANAGEMENT

The Group's capital management strategy is to maintain adequate capital to be able to operate according to the industrial scale and support the industry's future growth and development prospects of the Group's business; to set the appropriate market share; and make a plan of the required capacity and the requirement of the plant and equipment to achieve production and the corresponding capital expenditure. The Group calculates the required working capital and cash for the long-term development of the required asset size of the Group, and makes overall planning according to the industry characteristics.

The Group's management regularly reviews the capital structure, and considers the costs and risks of different capital structure. In general, the Group adopted a prudent risk management strategy.

31. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

   The management of the Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016 approximate their fair values.

b. Fair value of financial instruments measured at fair value on the recurring basis

Fair value hierarchy

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivatives	$ -	$ 4	$ -	$ 4
Derivative financial assets for hedging				
Derivatives	$ -	$ -	$ -	$ -
Financial liabilities at FVTPL				
Derivatives	$ -	$ (11)	$ -	$ (11)
Derivative financial liabilities for hedging				
Derivatives	$ -	$ (1)	$	$ (1)

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivatives	$ -	$ 172	$ -	$ 172
Available-for-sale financial assets				
Securities listed in ROC	$ 3,085	$ -	$ -	$ 3,085
Derivative financial assets for hedging				
Derivatives	$ -	$ 9	$ -	$ 9
Financial liabilities at FVTPL				
Derivatives	$ -	$ (78)	$ -	$ (78)

There were no transfers between Level 1 and Level 2 in the current and prior period.

c. Financial risk management objectives and policies

The Group's major financial instruments included cash, equity investments, trade receivable, trade payables, and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by the Group's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits was reviewed by the internal auditors on a continuous basis. The Group did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group manages exchange rate risk by using appropriate hedging tools. The Group does not trade financial instruments for speculative purposes. Foreign currency risk management strategy is to regularly review the net position of assets and liabilities in foreign currencies and manage accordingly. The choice of the tools to manage exchange rate risk takes into consideration the costs and duration of the hedge, exchange contract is used to manage risks.

The carrying amounts of the Group's nonfunctional-currency-denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period are set out in Note 35.

Sensitivity analysis

The Group was mainly exposed to the USD.

The following table details the Group's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the USD. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in pre-tax profit and other equity assuming New Taiwan dollars weakened (strengthened) 1% against the USD.

	USD Impact	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss (Note)	$ (101)	$ (48)

Note: This was mainly attributable to the exposure outstanding on USD receivables, payables and borrowings, which were not hedged at the end of the reporting period.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2017	**2016**
Fair value interest rate risk		
Financial assets	$ 217	$ 206
Financial liabilities	13,277	6,421
Cash flow interest rate risk		
Financial assets	3,592	1,930
Financial liabilities	40,791	28,539

Sensitivity analysis

The sensitivity analysis below was based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis was prepared assuming the amount of the assets and liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2017 and 2016 would increase/decrease by $372 thousand and $266 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank cash and borrowings.

c) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities. The Group does not actively trade these investments. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax other comprehensive income for the years ended December 31, 2016 would have increased by $31 thousand, respectively, as a result of the changes in fair value of available-for-sale shares.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

In order to minimize credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management believes that the Group's credit risk was significantly reduced.

Trade receivables consisted of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The credit risk on liquid funds and derivatives was limited because the counterparties are banks with high credit ratings assigned by credit-rating agencies.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the Group had available unutilized overdraft and bank loan facilities of approximately $173,606 thousand and $169,464 thousand, respectively.

a) Liquidity and interest risk rate tables for non-derivative financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2017

	Weighted Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
Non-derivative financial liabilities					
Non-interest bearing		$ 1,376	$ 45,190	$ 9,090	$ 1,140
Variable interest rate liabilities	1.52	11,759	-	4,169	25,065
Fixed interest rate liabilities	1.54	8,446	1,191	3,695	-
		$ 21,581	$ 46,381	$ 16,954	$ 26,205

December 31, 2016

	Weighted Average Effective Interest Rate (%)	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
Non-derivative financial liabilities					
Non-interest bearing		$ 2,309	$ 34,826	$ 11,008	$ 484
Variable interest rate liabilities	1.60	-	2,068	3,518	23,211
Fixed interest rate liabilities	1.70	2,096	1,692	2,674	-
		$ 4,405	$ 38,586	$ 17,200	$ 23,695

Bank loans with a repayment on demand clause were included in the "on demand or less than 1 month" time band in the above maturity analysis. As of December 31, 2017 and 2016, the aggregate undiscounted principal amounts of these bank loans amounted to $20,179 thousand and $2,093 thousand, respectively.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Liquidity and interest risk rate tables for derivative financial liabilities

The following table detailed the Group's liquidity analysis for its derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis.

December 31, 2017

	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
Net settled				
Foreign exchange forward contracts	$ 1	$ -	$ (9)	$ -

December 31, 2016

	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
Net settled				
Foreign exchange forward contracts	$ (79)	$ 42	$ 140	$ -

32. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The Company is the ultimate parent of the Group. In addition to those disclosed elsewhere in other notes, summary of transactions between the Group and other related parties are disclosed below.

a. Related party name and the relationship

Related Party Name	The Relationship With The Group
Hitachi Fortune Transformer, Inc.	Associates
Hua Cheng Investment Co., Ltd.	Others
Top Food Industry Co., Ltd.	Others (Note)

Note: The original director of Top Food Industry Co., Ltd. was the chairman of the Company. Top Food Industry Co., Ltd. elected a new director in June 2017. Since then, it became not related party of the Company.

b. Trading transactions

Line Items	Related Party Categories	For the Year Ended December 31 2017	2016
Sales	Associates	$ 269	$ 925
	Others	-	3
		$ 269	$ 928
Construction revenue	Associates	$ -	$ 112
Cost of goods sold - manufacturing expense	Others	$ 1	$ 1
Operating expense	Others	$ 4	$ 4
Other income - rental income	Associates		
	Hitachi Fortune Transformer, Inc.	$ 47	$ 11
	Others	2	2
		$ 49	$ 13

The Company's lease contracts with related parties are based on contract prices and payment terms agreed by the parties. For other transactions with related parties, the prices and collection terms were similar to those transactions with third parties.

b. Purchase of goods

Related Party Categories	For the Year Ended December 31 2017	2016
Associates	$ 517	$ 1,295

c. Receivables from related parties (excluding loans to related parties)

Line Items	Related Party Categories	For the Year Ended December 31 2017	2016
Accounts receivables	Associates	$ 70	$ 464
	Hitachi Fortune Transformer, Inc.		
	Others	-	4
		$ 70	$ 468

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2017 and 2016, no impairment loss was recognized on trade receivables from related parties.

d. Endorsements and guarantees

The endorsements and guarantees provided by the Company for the related parties and the credit of the contracts approved by the board of directors on the balance sheet date were as follows:

Related Party Categories	December 31 2017	2016
Subsidiaries		
Fortune Electric (Wuhan) Co., Ltd.	$ 13,000	$ 13,000

e. Compensation of key management personnel

	For the Year Ended December 31 2017	2016
Short-term employee benefits	$ 1,198	$ 1,104
Termination benefits	45	33
	$ 1,243	$ 1,137

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bid bond of sales, performance bond and bank borrowings:

	December 31	
	2017	2016
Pledge deposits (classified as debt investments with no active market)	$ 217	$ 206
Refundable deposits (current portion is included in other current assets)	80	229
Property, plant and equipment	33,673	31,338
Prepayment for lease	818	788
	$ 34,788	$ 32,561

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Group as of December 31, 2017 were as follows:

a. As of December 31, 2017, unused letters of credit for purchases of raw materials and machinery and equipment amounted to $1,781 thousand, ￥7,425 thousand, €491 thousand, Kč369 thousand and CHF 124 thousand.

b. As of December 31, 2017, promissory note of $75,674 thousand was made for bank financing, endorsements and the investee company's sales performance guarantee.

c. The Company signed a technical cooperation agreement with SIEMENS AG, with effective term from February 2014 to February 24, 2019. According to the contract, the Company will design, produce and sell goods in the Republic of China. On the Company's production and marketing of products covered by the technical cooperation agreement, the Company agreed to pay €55 for each unit of product sold as technical remuneration. The remuneration paid was $30 thousand and $29 thousand for the years ended December 31, 2017 and 2016, respectively, included in operating expenses.

d. The Company signed a technical cooperation agreement with LANDIS+GYR Inc., with effective term from June 2013 to June 17, 2019. According to the contract, the Company will design, produce and sell goods only in the Republic of China. On the Company's production and marketing of products covered by the technical cooperation agreement, the Company agreed to pay 6% of net sales as technical remuneration. The remuneration paid was $31 thousand and $29 thousand for the years ended December 31, 2017 and 2016, respectively, included in operating expenses.

e. The Company signed a technical cooperation agreement with Japanese firm, Meidensha, with effective term from April 2012 to July 2017. According to the contract, the Company will design, produce and sell goods in the Republic of China. The Company may also export the goods but a written agreement from Japanese Meidensha is required for every export before the exporting of the goods can be made. The Company has paid ￥32,000 thousand to obtain this technical cooperation agreement and agreed to pay 3% of net sales as technical remuneration. As of December 31, 2017 and 2016, technical remuneration paid was $11 thousand and $21 thousand, respectively, which was recognized as operating expense.

f. The Ministry of Economic Affairs offered government grant for establishing solar power system at the land subsidence in Pingtung County and Morakot disaster area. Regarding the solar energy project, Taiwan Power Company has signed a purchase and sale of electricity contract with the Company. The contract stated that Taiwan Power Company will purchase electricity from the Company for 20 years based on the ground-based solar power purchase rates announced by the Ministry of Economic Affairs. The power selling revenue for the years ended December 31, 2017 and 2016 was $375 thousand and $328 thousand, respectively. The rent of the land used for solar power plant is based on 9.7%, 11.5%, 12.3% of the sales of electricity for the first to tenth years, eleventh to fifteenth years, and sixteenth to twentieth years, respectively.

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

	Foreign Currencies	Exchange Rate	Carrying Amount (NTD)
Financial assets			
Monetary items			
USD	$ 14,034	29.7600 (USD:NTD)	$ 417,652
USD	3,483	6.5192 (USD:CNY)	103,654
			$ 521,306
Financial liabilities			
Monetary items			
USD	6,430	29.7600 (USD:NTD)	$ 191,357
USD	942	6.5192 (USD:CNY)	28,034
			$ 219,391

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount (NTD)
Financial assets			
Monetary items			
USD	$ 12,300	32.2500 (USD:NTD)	$ 396,675
USD	1,024	6.9851 (USD:CNY)	33,024
			$ 429,699
Financial liabilities			
Monetary items			
USD	7,950	32.2500 (USD:NTD)	$ 256,388
USD	527	6.9851 (USD:CNY)	16,996
			$ 273,384

The Group is mainly exposed to USD. The following information was aggregated by the functional currencies of the group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2017		2016	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1 (NTD:NTD)	$ 27	1 (NTD:NTD)	$ 164
RMB	4.5451 (RMB:NTD)	90	4.8588 (RMB:NTD)	(463)
		$ 117		$ (299)

36. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsements/guarantees provided. (Table 1)

3) Marketable securities held at the end of the year (excluding investment in subsidiaries, associates and joint ventures). (Table 2)

4) Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 3)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (None)

9) Trading in derivative instruments. (Notes 7 and 9)

10) Intercompany relationships and significant intercompany transactions. (Table 6)

11) Information on investees. (Table 4)

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the year, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 5)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Tables 1, 3-6)

   a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the year.

   b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year.

   c) The amount of property transactions and the amount of the resultant gains or losses.

   d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes.

   e) The highest balance, the end of year balance, the interest rate range, and total current year interest with respect to financing of funds.

   f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receiving of services.

37. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods and services delivered or provided. The Group has disclosed its electrical department and turnkey department as its reporting segments. The electrical department manufactures, processes and trades transformers, distributors, low pressure switches and substation equipment; and the turnkey department mainly engages in engineering contracts.

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment Revenue for the Year Ended December 31		**Segment Profit for the Year Ended December 31**	
	2017	**2016**	**2017**	**2016**
Electrical department	$ 184,369	$ 160,484	$ 16,586	$ 15,543
Construction department	12,865	17,074	(7,444)	(1,547)
Segment revenues	$ 197,234	$ 177,558	9,142	13,996
Government grant			379	304
Other income			524	675

(Continued)

	Segment Revenue for the Year Ended December 31		Segment Profit for the Year Ended December 31	
	2017	2016	2017	2016
Net income on financial assets at fair value through profit or loss			$ (19)	$ (322)
Share of the loss of associate			(2,325)	(2,926)
Other gains and losses			1,233	2,689
Financial costs			(827)	(881)
General and administrative expense			(3,874)	(4,272)
Profit before tax			$ 4,233	$ 9,263

(Concluded)

Segment revenues reported above represent revenues generated from external customers. There were no inter-segment sales during the years ended December 31, 2017 and 2016.

Segment profit represented the profit before tax earned by each segment without allocation of other income, net income on financial assets at fair value through profit or loss, share of the loss of associates, other gains and losses, financial costs, general and administrative expense and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

The Group's measure of assets and liabilities were not provided to the chief operating decision maker. Therefore, no assets and liabilities were presented under operating segments.

c. Other segment information

	Depreciation and Amortization	
	2017	2016
Electrical department	$ 3,043	$ 2,756
Construction department	-	-
	$ 3,043	$ 2,756

d. Revenue from major products and services

For the analysis of the Group's revenue from continuing operations from its major products and services, please refer to Note 26.

e. Information about major customers

Included in the total revenues of electrical and turnkey departments of $197,234 thousand and $177,558 thousand in 2017 and 2016, respectively, are revenues of $51,709 thousand and $38,742 thousand which are sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2017 and 2016.

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of U.S. Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China	Note
		Name	Relationship											
0	Fortune Electric Co., Ltd.	Fortune Electric (Wuhan) Co., Ltd.	Subsidiary	$ 52,313	$ 13,000	$ 13,000	$ 3,691 (¥ 5,920)	$ -	12.46	$ 62,776	Y	N	Y	

Note 1: The limit on the total maximum endorsement for each guaranteed party is equal to 50% of the Company’s net equity: $104,627 x 50% = $52,313

Note 2: The maximum limit is equal to 60% of the Company’s net equity: $104,627 x 60% = $62,776

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2017
(In Thousands of U.S. Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares (thousand)	Carrying Amount	Percentage of Ownership	Fair Value	
Fortune Electric Co., Ltd.	Stock Raynergy Tek Incorporation	-	Financial assets measured at cost	3,031	$ 1,019	11.23	$ -	Note 1

Note 1: There was no active market price and the fair value cannot be reliably measured, therefore, measured at cost.

Note 2: The information of investments in subsidiaries and associates is provided in Tables 4 and 5.

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of U.S. Dollars, Unless Stated Otherwise)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Fortune Electric Co., Ltd.	Fortune Electric (Wuhan) Co., Ltd.	Subsidiary	Purchase	$ 6,135	5.09	90 days	$ -	-	$ 832	0.93	

TABLE 4

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of U.S. Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2017			Net Income (Loss) of the Investee	Share of Profits (Loss) (Note 1)	Note
				December 31, 2017	December 31, 2016	Shares (Thousand)	%	Carrying Value			
Fortune Electric Co., Ltd.	Power Energy International Ltd.	2nd Floor, Building B, SNPF Plaza, Savalalo, Apia, Samoa	Trade business, investment holding, agent business	$ 4,252	$ 3,923	3,800	100.00	$ 8,369	$ 556	$ 556	Investee is a subsidiary
	Fortune Electric America Inc.	23133 Hawthorne Blvd. Suite 200 Torrance, CA 90505	Agents business	99	91	1	100.00	302	69	69	Investee is a subsidiary
	Hitachi Fortune Transformer, Inc.	No. 500, Nanheng 1st Rd, Wuqi District, Taichung City 435, Taiwan	Transformers manufacturing, machining and trading	18,978	17,513	56,480	40.00	10,899	(5,789)	(2,315)	Associates
	E-Total Link	Shin Osaka SONE Building No. 1204, Nish-Nakajima 7-chome No. 29, Yodogawa-ku, Osaka Prefecture	Transformers manufacturing, machining and trading	47	-	100	25.00	35	(39)	(10)	Associates
Power Energy International Ltd.	Fortune Electric (Wuhan) Ltd.	Wuhan, China	Transformers, capacitors, power distribution equipment manufacturing	6,500	6,500	-	100.00	8,369	556	556	Investee is a subsidiary
Fortune Electric (Wuhan) Ltd.	Wuhan Huarong Co., Ltd.	Wuhan, China	Production and sale of transformer tank, machining, mechanical and electrical products, metal surface corrosion treatment	RMB 1,274 thousand	RMB 1,274 thousand	-	60.00	RMB 441 thousand	RMB (795) thousand	RMB (477) thousand	Investee is a subsidiary
	Wuhan Fortune Trade Co., Ltd.	Wuhan, China	Trade business	RMB 500 thousand	RMB 500 thousand	-	100.00	RMB 1,112 thousand	RMB 440 thousand	RMB 440 thousand	Investee is a subsidiary

Note 1: Net asset values were based on audited financial statements of the investees and calculated at the investor's holding proportion.

Note 2: The listed amounts above were eliminated upon consolidation except for Hitachi Fortune Transformer, Inc. and E-Total-Link.

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of U.S. Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (Note 3)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017 (Note 3)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017 (Note 3)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017	Note
					Outward	Inward							
Fortune Electric (Wuhan) Ltd.	Transformers, capacitors, power distribution equipment manufacturing	$ 6,500	Indirect	$ 6,000	$ -	$ -	$ 6,000	$ 556	100.00	$ 556	$ 8,369	$ -	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$6,000	$6,000	$62,776

Note 1: Net asset values were based on audited financial statements of the investees and calculated at the investor's holding proportion.

Note 2: The investment income/loss was recognized based on average exchange rate from January 1, 2017 to December 31, 2017; the other accounts were all based on prevailing exchange rate as of December 31, 2017.

Note 3: The difference between the accumulated investment of $6,000 thousand from Taiwan and the paid-in capital balance, $6,500 thousand, of Fortune Electric (Wuhan) Ltd. was due to the direct investment of $500 thousand by Power Energy International Ltd., which is 100% owned by the Company.

Note 4: The listed amounts above were eliminated upon consolidation.

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of U.S. Dollars, Unless Stated Otherwise)

No	Investee Company	Counterparty	Relationship (Note 1)	Transactions Details			
				Financial Statement Accounts	Amount	Transaction Terms	% to Total Sales or Assets
0	Fortune Electric Co., Ltd.	Fortune Electric (Wuhan) Co., Ltd.	a	Purchases	$ 6,135	With non-related parties	3.11
		Fortune Electric (Wuhan) Co., Ltd.	a	Rental revenue	2	Under arm’s length terms	-
		Fortune Electric (Wuhan) Co., Ltd.	a	Accounts receivable	832	With non-related parties	0.35
		Fortune Electric (Wuhan) Co., Ltd.	a	Sales	2,190	With non-related parties	1.11
		Fortune Electric America Inc.	a	Operating expenses	1,331	Under arm’s length terms	0.67
		Fortune Electric America Inc.	a	Accounts payable	94	With non-related parties	0.04
		Wuhan Fortune Trade Co., Ltd.	a	Purchases	537	With non-related parties	0.27
		Wuhan Fortune Trade Co., Ltd.	a	Accounts receivable	17	With non-related parties	0.01
1	Fortune Electric (Wuhan) Co., Ltd.	Wuhan Huarong Co., Ltd.	c	Purchases	648	With non-related parties	0.33
		Wuhan Huarong Co., Ltd.	c	Rental revenue	129	Under arm’s length terms	0.07
		Wuhan Huarong Co., Ltd.	c	Accounts payable	22	With non-related parties	0.01
		Wuhan Fortune Trade Co., Ltd.	c	Sales	21	With non-related parties	0.01

Note 1: The kinds of relationship between the transaction parties are as follows:

a. The Company to the consolidated subsidiary.
c. The consolidated subsidiary to another consolidated subsidiary.

Note 2: The listed amounts above were eliminated upon consolidation.