

**Fortune Electric Co., Ltd. and Subsidiaries**

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 2018 and 2017**

# FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands)

ASSETS	September 30, 2018 (Reviewed)		December 31, 2017	September 30, 2017
	NT\$	US\$ (Note)	(Audited) NT\$	(Reviewed) NT\$
<b>CURRENT ASSETS</b>				
Cash	\$ 118,352	\$ 3,877	\$ 110,650	\$ 78,639
Financial assets at fair value through profit or loss	4,809	158	126	645
Derivative financial assets for hedging	-	-	10	-
Financial assets at amortized cost - current	4,565	150	-	-
Contract assets	465,657	15,255	-	-
Debt investments with no active market - current	-	-	5,165	5,165
Notes receivable	67,878	2,224	82,229	33,171
Trade receivables from unrelated parties	2,365,702	77,500	2,807,155	2,176,269
Trade receivables from related parties	-	-	2,067	-
Amounts due from customers for construction contracts	-	-	334,278	311,875
Current tax assets	26	-	541	6,487
Inventories, net	2,084,524	68,289	1,781,574	2,234,500
Prepayments	70,644	2,314	71,044	59,695
Other current assets	134,177	4,396	49,469	69,931
Total current assets	<u>5,316,334</u>	<u>174,163</u>	<u>5,244,308</u>	<u>4,976,377</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets at fair value through other comprehensive income	16,889	553	-	-
Financial assets at amortized cost - non-current	1,272	42	-	-
Financial assets measured at cost	-	-	30,310	30,310
Debt investments with no active market - non-current	-	-	1,272	1,272
Investments accounted for using equity method	290,962	9,532	325,400	370,006
Property, plant and equipment	1,335,239	43,742	1,367,183	1,375,841
Intangible assets	16,429	538	9,735	11,219
Deferred tax assets	75,721	2,481	54,534	51,048
Prepayments for equipment	6,105	200	8,271	9,091
Refundable deposits	4,036	132	4,071	4,295
Long-term prepayment for lease	22,496	737	23,671	23,771
Total non-current assets	<u>1,769,149</u>	<u>57,957</u>	<u>1,824,447</u>	<u>1,876,853</u>
<b>TOTAL</b>	<u>\$ 7,085,483</u>	<u>\$ 232,120</u>	<u>\$ 7,068,755</u>	<u>\$ 6,853,230</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings	\$ 872,582	\$ 28,586	\$ 867,280	\$ 798,520
Financial liabilities at fair value through profit or loss - current	446	15	311	52
Derivative financial liabilities for hedging	79	3	27	-
Contract liabilities	432,696	14,175	-	-
Notes payable	-	-	3,261	887
Trade payables to unrelated parties	1,630,442	53,413	1,570,611	1,374,350
Trade payables to related parties	2,121	69	-	6,783
Amounts due to customers for construction contracts	-	-	28	33,521
Other payables	122,533	4,014	191,596	162,637
Current tax liabilities	128	4	22	-
Provisions	31,358	1,027	-	-
Deferred revenue	-	-	235,057	307,807
Other current liabilities	72,814	2,386	38,215	28,702
Total current liabilities	<u>3,165,199</u>	<u>103,692</u>	<u>2,906,408</u>	<u>2,713,259</u>
<b>NON-CURRENT LIABILITIES</b>				
Financial liabilities at fair value through profit or loss - non-current	90	3	-	-
Long-term borrowings	741,800	24,301	741,800	741,800
Deferred tax liabilities	65,653	2,151	57,437	51,199
Net defined benefit liabilities	214,999	7,043	244,742	225,094
Guarantee deposit received	13,452	441	3,317	3,316
Total non-current liabilities	<u>1,035,994</u>	<u>33,939</u>	<u>1,047,296</u>	<u>1,021,409</u>
Total liabilities	<u>4,201,193</u>	<u>137,631</u>	<u>3,953,704</u>	<u>3,734,668</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital	2,610,585	85,523	2,610,585	2,610,585
Capital surplus	1,179	39	1,179	1,033
Retained earnings				
Legal reserve	354,326	11,608	345,050	345,050
Special reserve	15,251	500	11,231	11,231
Unappropriated earnings (accumulated deficits)	(56,306)	(1,845)	160,916	164,498
Total retained earnings	313,271	10,263	517,197	520,779
Other equity				
Exchange differences on translating foreign operations	(21,422)	(702)	(15,234)	(15,824)
Unrealized gain or loss on financial assets at fair value through other comprehensive income	(18,644)	(611)	-	-
Cash flow hedges	(79)	(3)	(17)	-
Total other equity	(40,145)	(1,316)	(15,251)	(15,824)
Total equity attributable to owners of the Company	2,884,890	94,509	3,113,710	3,116,573
<b>NON-CONTROLLING INTERESTS</b>	(600)	(20)	1,341	1,989
Total equity	<u>2,884,290</u>	<u>94,489</u>	<u>3,115,051</u>	<u>3,118,562</u>
<b>TOTAL</b>	<u>\$ 7,085,483</u>	<u>\$ 232,120</u>	<u>\$ 7,068,755</u>	<u>\$ 6,853,230</u>

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT\$30.525 to US\$1.00 at September 30, 2018, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

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

(With Deloitte & Touche review report dated November 5, 2018)

## FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018		2017	2018		2017
	NT\$	US\$ (Note)	NT\$	NT\$	US\$ (Note)	NT\$
<b>OPERATING REVENUES</b>						
Sales	\$ 1,635,944	\$ 53,594	\$ 1,209,687	\$ 3,891,037	\$ 127,470	\$ 3,585,229
Construction revenue	<u>100,326</u>	<u>3,286</u>	<u>22,236</u>	<u>296,715</u>	<u>9,721</u>	<u>183,402</u>
Total operating revenues	<u>1,736,270</u>	<u>56,880</u>	<u>1,231,923</u>	<u>4,187,752</u>	<u>137,191</u>	<u>3,768,631</u>
<b>OPERATING COSTS</b>						
Cost of goods sold	1,378,858	45,171	1,058,296	3,249,064	106,439	2,973,059
Construction cost	<u>126,998</u>	<u>4,161</u>	<u>52,343</u>	<u>614,280</u>	<u>20,124</u>	<u>287,121</u>
Total operating costs	<u>1,505,856</u>	<u>49,332</u>	<u>1,110,639</u>	<u>3,863,344</u>	<u>126,563</u>	<u>3,260,180</u>
<b>GROSS PROFIT</b>	<u>230,414</u>	<u>7,548</u>	<u>121,284</u>	<u>324,408</u>	<u>10,628</u>	<u>508,451</u>
<b>OPERATING EXPENSES</b>						
Selling and marketing expenses	124,117	4,066	78,047	309,203	10,129	255,799
General and administrative expenses	28,381	930	26,855	84,432	2,766	85,018
Research and development expenses	<u>21,274</u>	<u>696</u>	<u>21,779</u>	<u>64,034</u>	<u>2,098</u>	<u>73,389</u>
Total operating expenses	<u>173,772</u>	<u>5,692</u>	<u>126,681</u>	<u>457,669</u>	<u>14,993</u>	<u>414,206</u>
<b>PROFIT (LOSS) FROM OPERATIONS</b>	<u>56,642</u>	<u>1,856</u>	<u>(5,397)</u>	<u>(133,261)</u>	<u>(4,365)</u>	<u>94,245</u>
<b>NON-OPERATING INCOME AND EXPENSES</b>						
Other income	4,567	150	4,793	73,026	2,393	10,307
Other gains and losses	(859)	(28)	5,864	6,938	227	37,189
Share of loss of associates	(20,515)	(672)	(17,317)	(34,454)	(1,129)	(24,612)
Finance costs	<u>(7,056)</u>	<u>(232)</u>	<u>(5,463)</u>	<u>(21,058)</u>	<u>(690)</u>	<u>(17,584)</u>
Total non-operating income and expenses	<u>(23,863)</u>	<u>(782)</u>	<u>(12,123)</u>	<u>24,452</u>	<u>801</u>	<u>5,300</u>
<b>PROFIT (LOSS) BEFORE INCOME TAX</b>	32,779	1,074	(17,520)	(108,809)	(3,564)	99,545
<b>INCOME TAX EXPENSE (BENEFIT)</b>	<u>14,044</u>	<u>460</u>	<u>111</u>	<u>(4,586)</u>	<u>(150)</u>	<u>22,627</u>
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<u>18,735</u>	<u>614</u>	<u>(17,631)</u>	<u>(104,223)</u>	<u>(3,414)</u>	<u>76,918</u>
<b>OTHER COMPREHENSIVE INCOME AND LOSS</b>						
Items that will not be reclassified subsequently to profit or loss:						
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	(1,148)	(37)	-	(21,069)	(690)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,744</u>	<u>90</u>	<u>-</u>
	<u>(1,148)</u>	<u>(37)</u>	<u>-</u>	<u>(18,325)</u>	<u>(600)</u>	<u>-</u>

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## FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2018		2017	2018		2017
	NT\$	US\$ (Note)	NT\$	NT\$	US\$ (Note)	NT\$
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	\$ (8,122)	\$ (266)	\$ 2,949	\$ (6,169)	\$ (202)	\$ (4,252)
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	(75)
Share of the other comprehensive income (loss) of associates accounted for using the equity method	(29)	(1)	(10)	16	1	(36)
Cash flow hedges	(1,634)	(54)	7	(62)	(3)	(283)
	<u>(9,785)</u>	<u>(321)</u>	<u>2,946</u>	<u>(6,215)</u>	<u>(204)</u>	<u>(4,646)</u>
Total other comprehensive income and loss	<u>(10,933)</u>	<u>(358)</u>	<u>2,946</u>	<u>(24,540)</u>	<u>(804)</u>	<u>(4,646)</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	<u>\$ 7,802</u>	<u>\$ 256</u>	<u>\$ (14,685)</u>	<u>\$ (128,763)</u>	<u>\$ (4,218)</u>	<u>\$ 72,272</u>
<b>NET PROFIT (LOSS) ATTRIBUTABLE TO:</b>						
Owners of the Company	\$ 19,276	\$ 631	\$ (17,168)	\$ (102,247)	\$ (3,350)	\$ 77,701
Non-controlling interests	<u>(541)</u>	<u>(17)</u>	<u>(463)</u>	<u>(1,976)</u>	<u>(64)</u>	<u>(783)</u>
	<u>\$ 18,735</u>	<u>\$ 614</u>	<u>\$ (17,631)</u>	<u>\$ (104,223)</u>	<u>\$ (3,414)</u>	<u>\$ 76,918</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>						
Owners of the Company	\$ 8,336	\$ 273	\$ (14,249)	\$ (126,822)	\$ (4,155)	\$ 73,108
Non-controlling interests	<u>(534)</u>	<u>(17)</u>	<u>(436)</u>	<u>(1,941)</u>	<u>(63)</u>	<u>(836)</u>
	<u>\$ 7,802</u>	<u>\$ 256</u>	<u>\$ (14,685)</u>	<u>\$ (128,763)</u>	<u>\$ (4,218)</u>	<u>\$ 72,272</u>
<b>EARNINGS (LOSS) PER SHARE</b>						
Basic	<u>\$0.07</u>	<u>\$0.00</u>	<u>\$(0.07)</u>	<u>\$(0.39)</u>	<u>\$(0.01)</u>	<u>\$0.30</u>
Diluted	<u>\$0.07</u>	<u>\$0.00</u>	<u>\$(0.07)</u>	<u>\$(0.39)</u>	<u>\$(0.01)</u>	<u>\$0.30</u>

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(With Deloitte & Touche review report dated November 5, 2018)

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**FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In Thousands)

	Equity Attributable to Owners of the Company							Other Equity			Controlling Interests	Non-controlling Interests	Total Equity	
	Retained Earnings						Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges				Total
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficits)	Total								
BALANCE AT JANUARY 1, 2017	\$ 2,610,585	\$ 1,033	\$ 319,994	\$ 18,469	\$ 313,462	\$ 651,925	\$ (11,589)	\$ 75	\$ -	\$ 283	\$ (11,231)	\$ 3,252,312	\$ 2,825	\$ 3,255,137
Appropriation of 2016 earnings														
Legal reserve	-	-	25,056	-	(25,056)	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(7,238)	7,238	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(208,847)	(208,847)	-	-	-	-	-	(208,847)	-	(208,847)
	-	-	25,056	(7,238)	(226,665)	(208,847)	-	-	-	-	-	(208,847)	-	(208,847)
Net income (loss) for the nine months ended September 30, 2017	-	-	-	-	77,701	77,701	-	-	-	-	-	77,701	(783)	76,918
Other comprehensive income (loss) for the nine months ended September 30, 2017, net of income tax	-	-	-	-	-	-	(4,235)	(75)	-	(283)	(4,593)	(4,593)	(53)	(4,646)
Total comprehensive income (loss) for the nine months ended September 30, 2017	-	-	-	-	77,701	77,701	(4,235)	(75)	-	(283)	(4,593)	73,108	(836)	72,272
BALANCE AT SEPTEMBER 30, 2017	\$ 2,610,585	\$ 1,033	\$ 345,050	\$ 11,231	\$ 164,498	\$ 520,779	\$ (15,824)	\$ -	\$ -	\$ -	\$ (15,824)	\$ 3,116,573	\$ 1,989	\$ 3,118,562
BALANCE AT JANUARY 1, 2018	\$ 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
Effect of retrospective application	-	-	-	-	-	-	-	-	2,425	-	2,425	2,425	-	2,425
BALANCE AT JANUARY 1, 2018 AS RESTATED	2,610,585	1,179	345,050	11,231	160,916	517,197	(15,234)	-	2,425	(17)	(12,826)	3,116,135	1,341	3,117,476
Appropriation of 2017 earnings														
Legal reserve	-	-	9,276	-	(9,276)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	4,020	(4,020)	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(104,423)	(104,423)	-	-	-	-	-	(104,423)	-	(104,423)
	-	-	9,276	4,020	(117,719)	(104,423)	-	-	-	-	-	(104,423)	-	(104,423)
Net loss for the nine months ended September 30, 2018	-	-	-	-	(102,247)	(102,247)	-	-	-	-	-	(102,247)	(1,976)	(104,223)
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	2,744	2,744	(6,188)	-	(21,069)	(62)	(27,319)	(24,575)	35	(24,540)
Total comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	-	(99,503)	(99,503)	(6,188)	-	(21,069)	(62)	(27,319)	(126,822)	(1,941)	(128,763)
BALANCE AT SEPTEMBER 30, 2018	\$ 2,610,585	\$ 1,179	\$ 354,326	\$ 15,251	\$ (56,306)	\$ 313,271	\$ (21,422)	\$ -	\$ (18,644)	\$ (79)	\$ (40,145)	\$ 2,884,890	\$ (600)	\$ 2,884,290
BALANCE AT SEPTEMBER 30, 2018 (IN U.S. DOLLARS)	\$ 85,523	\$ 39	\$ 11,608	\$ 500	\$ (1,845)	\$ 10,263	\$ (702)	\$ -	\$ (611)	\$ (3)	\$ (1,316)	\$ 94,509	\$ (20)	\$ 94,489

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(With Deloitte & Touche review report dated November 5, 2018)

# FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30		
	2018		2017
	NT\$	US\$ (Note)	NT\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit (loss) before income tax	\$ (108,809)	\$ (3,565)	\$ 99,545
Adjustments for:			
Depreciation expenses	60,243	1,974	62,428
Amortization expenses	4,562	149	5,950
Impairment loss (reversed)/recognized on trade receivables	(1,788)	(59)	574
Net gain on financial assets at fair value through profit or loss	(4,273)	(140)	(593)
Finance costs	21,058	690	17,584
Interest income	(738)	(24)	(1,319)
Share of loss of associates	34,454	1,129	24,612
Loss on disposal of property, plant and equipment	35	1	90
Net gain on disposal of available-for-sale financial assets	-	-	(29,304)
Write-down of inventories	248	8	3,142
Unrealized net loss on foreign currency exchange	6,530	214	1,432
Prepayment for lease	506	17	577
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss	(185)	(6)	3,018
Contract assets	76,980	2,522	-
Notes receivable	14,092	462	16,883
Trade receivables	266,956	8,745	28,012
Trade receivables from related parties	2,373	78	15,083
Amounts due from customers for construction contracts	-	-	130,291
Inventories	(302,832)	(9,921)	(320,464)
Prepayments	(256)	(8)	30,912
Other current assets	(85,262)	(2,793)	3,324
Contract liabilities	139,010	4,554	-
Notes payable	(3,261)	(107)	887
Trade payables	124,682	4,085	(29,323)
Trade payables to related parties	1,815	59	6,783
Amounts due to customers for construction contracts	-	-	13,573
Other payables	(72,341)	(2,370)	(101,720)
Provisions	(13,037)	(427)	-
Deferred revenue	-	-	(182,164)
Other current liabilities	34,599	1,133	(23,312)
Net defined benefit liabilities	(29,743)	(974)	(32,419)
Cash generated from (used in) operations	165,618	5,426	(255,918)
Interest received	738	24	1,319

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# FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30		
	2018		2017
	NT\$	US\$ (Note)	NT\$
Interest paid	\$ (20,052)	\$ (657)	\$ (17,451)
Income tax paid	<u>(5,159)</u>	<u>(169)</u>	<u>(45,840)</u>
Net cash generated from (used in) operating activities	<u>141,145</u>	<u>4,624</u>	<u>(317,890)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of financial assets measured at cost	600	20	-
Proceeds from sale of available-for-sale financial assets	-	-	128,704
Proceeds from sale of debt investments with no active market	-	-	209
Purchase of financial assets measured at cost	-	-	(3,310)
Acquisition of investments accounted for using equity method	-	-	(1,385)
Payments for property, plant and equipment	(30,005)	(983)	(27,253)
Proceeds from disposal of property, plant and equipment	20	1	50
Decrease (increase) in refundable deposits	42	1	(1,835)
Payments for intangible assets	(11,255)	(369)	(4,407)
Decrease (increase) in prepayments for equipment	<u>2,166</u>	<u>71</u>	<u>(4,896)</u>
Net cash generated from (used in) investing activities	<u>(38,432)</u>	<u>(1,259)</u>	<u>85,877</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term borrowings	4,651	152	412,479
Proceeds from guarantee deposits received	10,135	332	664
Issue of cash dividend	<u>(104,423)</u>	<u>(3,421)</u>	<u>(208,847)</u>
Net cash generated from (used in) financing activities	<u>(89,637)</u>	<u>(2,937)</u>	<u>204,296</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>			
	<u>(5,374)</u>	<u>(176)</u>	<u>(4,081)</u>

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# FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30		
	2018		2017
	NT\$	US\$ (Note)	NT\$
NET INCREASE (DECREASE) IN CASH	\$ 7,702	\$ 252	\$ (31,798)
CASH AT THE BEGINNING OF THE PERIOD	<u>110,650</u>	<u>3,625</u>	<u>110,437</u>
CASH AT THE END OF THE PERIOD	<u>\$ 118,352</u>	<u>\$ 3,877</u>	<u>\$ 78,639</u>

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT\$30.525 to US\$1.00 at September 30, 2018, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

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

(With Deloitte & Touche review report dated November 5, 2018)

(Concluded)



# FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (In Thousands of U.S. Dollars) (Reviewed, Not Audited)

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### 1. GENERAL INFORMATION

Fortune Electric Co., Ltd. (the “Company”) was incorporated in the Republic of China (“ROC”) in August 1969. The Company mainly manufactures, processes and trades transformers, distribution panels, low voltage switch and substation equipment.

The Company’s shares have been listed on the Taiwan Stock Exchange (“TSE”) since April 1997.

For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in New Taiwan dollars since the Company’s stocks are listed on the Taiwan Stock Exchange.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on November 5, 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 by the FSC

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the company and the entities controlled by the company’s (the “Group”) accounting policies:

- 1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

#### Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount (NTD)		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash	Loans and receivables	Amortized cost	\$ 110,650	\$ 110,650	c)
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	30,310	32,735	a)
Pledged time deposits	Loans and receivables	Amortized cost	6,437	6,437	b)
Notes receivable and trade receivables	Loans and receivables	Amortized cost	2,891,451	2,891,451	c)
Refundable deposits	Loans and receivables	Amortized cost	6,471	6,471	c)

  

Financial Assets	IAS 39	Reclassifications	Remeasurements	IFRS 9	Other Equity Effect on January 1, 2018	Remark
	Carrying Amount as of January 1, 2018			Carrying Amount as of January 1, 2018		
	NTD	NTD	NTD	NTD	NTD	
<u>FVTOCI</u>	\$ -					
Equity instruments						
Add: Remeasurement from financial assets at amortized cost (IAS 39)	-	\$ 30,310	\$ 2,425			a)
	<u>-</u>	<u>30,310</u>	<u>2,425</u>	\$ 32,735	\$ 2,425	
<u>Amortized cost</u>	-					
Add: Reclassification from loans and receivables (IAS 39)	-	3,015,009	-			b) and c)
	<u>-</u>	<u>3,015,009</u>	<u>-</u>	<u>3,015,009</u>	<u>-</u>	
	<u>\$ -</u>	<u>\$ 3,045,319</u>	<u>\$ 2,425</u>	<u>\$ 3,047,744</u>	<u>\$ 2,425</u>	

- a) Investments in unlisted shares previously measured at cost under IAS 39 have been designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$2,425 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.
- b) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- c) Cash, notes receivable, trade receivables and refundable deposits that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

## Hedge accounting

Under the Group's previous hedge accounting policy of IAS 39, the spot element of forward contracts was designated as a cash flow hedging instrument for the foreign currency risk of forecasted purchases of equipment, the forward element of forward contracts was excluded from the designated hedging relationships, and the related changes are recognized directly in profit or loss. On adoption of IFRS 9, the Group elected not to apply the treatment of hedging cost for forward contracts retrospectively. Furthermore, due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets and financial liabilities for hedging from January 1, 2018.

## 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 supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

If the customer has retained a portion of payment to the Group in accordance with the term of the contract in order to protect the customer from the contractor's possible failure to adequately complete its obligations under the contract, such payment arrangement does not include a significant financing component and is recognized as a contract asset before the contractual obligation is completed under IFRS 15. Prior to the application of IFRS 15, retention receivables under construction contract was recognized as a receivable and was discounted to reflect time value of money in accordance with IAS 39.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Prior to the application of IFRS 15, the net effect of the progress billings, cost incurred and recognized profit (loss) of a construction contract was recognized as amount due from (to) customer for construction contract under IAS 11, and the receivable was recognized or deferred revenue was recognized reduced when revenue was recognized for the contract under IAS 18.

If a contract with a customer becomes onerous, the Group recognizes impairment of related inventories or provisions for onerous contracts. Prior to the application of IFRS 15, expected loss on construction contract was recognized and adjusted to amounts due from (to) customers for construction contracts.

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

For all contract modifications that occurred on or before December 31, 2017, the Group did not apply the requirements in IFRS 15 individually to each of the modifications, and identified the performance obligations, determined and allocated transaction price in the manner that reflected the aggregate effect of all modifications that occurred before December 31, 2017. This reduced the complexity and cost of retrospective application, and resulted in financial information that closely aligns with the financial information that would be available under IFRS 15 without the expedient.

Impact on assets, liabilities and equity for current period

	As Originally Stated (NTD)	Adjustments Arising from Initial Application (NTD)	Restated (NTD)
Contract assets	\$ -	\$ 542,637	\$ 542,637
Trade receivables from unrelated parties	2,807,155	(163,964)	2,643,191
Amounts due from customers for construction contracts	<u>334,278</u>	<u>(334,278)</u>	<u>-</u>
Total effect on assets	<u>\$ 3,141,433</u>	<u>\$ 44,395</u>	<u>\$ 3,185,828</u>
Contract liabilities	\$ -	\$ 294,064	\$ 294,064
Trade payables from unrelated parties	1,570,611	(58,979)	1,511,632
Amounts due to customers for construction contracts	28	(28)	-
Deferred revenue	235,057	(235,057)	-
Provisions	<u>-</u>	<u>44,395</u>	<u>44,395</u>
Total effect on liabilities	<u>\$ 1,805,696</u>	<u>\$ 44,395</u>	<u>\$ 1,850,091</u>

The difference between the amount that results from applying IFRS 15 and the amount that results from applying IAS 11 and IAS 18 for 2018 is summarized below:

	September 30, 2018 (NTD)
Increase in trade receivables from unrelated parties	\$ 113,594
Increase in amounts due from customers for construction contracts	351,703
Decrease in contract assets	<u>(465,657)</u>
Decrease in assets	<u>\$ -</u>
Increase in trade payables from unrelated parties	\$ 157,572
Increase in amounts due to customers for construction contracts	23
Increase in deferred revenue	306,459
Decrease in contract liabilities	(432,696)
Decrease in provisions	<u>(31,358)</u>
Decrease in liabilities	<u>\$ -</u>

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Prior to the amendment, in assessing a deferred tax asset, the Group assumed that it will recover the asset at its carrying amount when estimating probable future taxable profit. When the amendments become effective in 2018, the amendments shall be applied retrospectively.

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

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

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

b. Amendments to the IFRSs endorsed by the FSC for application starting from 2019

<b>New, Amended or Revised Standards and Interpretations (the “New IFRSs”)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
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: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

## 1) IFRS 16 “Leases”

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

### Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply IFRS 16 only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

### The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, including property interest qualified as investment properties, are recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in China are recognized as prepayments for leases. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

### The Group as lessor

Except for sublease transactions, the Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

## 2) 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.

Upon initial application of IFRIC 23, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

3) 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 Group will apply the above amendments 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 amendments 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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (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 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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 Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the amendments of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values 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. 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)

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.

Subsidiaries included in consolidated financial statements:

Investor	Investee	Main Business	% of Ownership		
			September 30, 2018	December 31, 2017	September 30, 2017
Fortune Electric Co., Ltd.	Power Energy International Ltd.	Investment Holding	100	100	100
	Fortune Electric America Inc.	Agents business	100	100	100
Power Energy International Ltd.	Fortune Electric (Wuhan) Ltd.	Transformers, capacitors, power distribution equipment manufacturing	100	100	100
Fortune Electric (Wuhan) Ltd.	Wuhan Huarong Co., Ltd.	Production and sale of transformer tank, machining, mechanical and electrical products, metal surface corrosion treatment	60	60	60
	Wuhan Fortune Trade Co., Ltd.	Trade business	100	100	100

Note: Subsidiaries included in consolidated financial statements, January 1 to September 30, 2018 and 2017 were based on the same period of unreviewed financial statements.

d. Other significant accounting policies

For the summary of other significant accounting policies, except for the following, please refer to the consolidated financial statements for the year ended December 31, 2017.

1) 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 FVTPL) are added to or deducted from 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 FVTPL are recognized immediately in profit or loss.



a) Financial assets

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

i. Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and equity instruments at FVTOCI.

i) Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured 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.

ii) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash, pledged time deposits, trade receivables and notes receivable, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

iii) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

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 dividends or interest earned on the financial asset.

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 amounts 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 such investments are disposed of or are 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 presented in a separate line item as financial assets measured 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 the carrying amount and the 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, debt investments with no active market) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

ii. Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) as well as contract assets.

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables and contract assets. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

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, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as trade receivables, such assets 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 of collecting payments, an increase in the number of delayed payments in the portfolio past the individual credit period, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For a financial asset 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 carried 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 any 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 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 is 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, 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 measured at cost, the amount of the impairment loss is measured as the difference between such an 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 a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, they are 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 that are written off against the allowance account.

### iii. 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.

Before 2018, 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. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b) 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.

c) Financial liabilities

i. Subsequent measurement

Except the FVTPL, all financial liabilities are measured at amortized cost using the effective interest method:

Financial liabilities are classified as at FVTPL 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.

ii. 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.

2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

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 gains or losses relating to the ineffective portion are 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 reclassification adjustments in the line items relating to the related hedged item in the same period in which the hedged item affects profit or loss. If a hedge of a forecasted 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 included in the initial cost of the non-financial asset or non-financial liability.

Before 2018, hedge accounting was discontinued prospectively when the Group revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. Starting from 2018, the Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that was previously recognized in other comprehensive income (from the period in which the hedge was effective) remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately in profit or loss.

### 3) Revenue recognition

#### 2018

The Group identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

For contract where the period between the date the Group transfers a promised good or service to a customer and the date the customer pays for that good or service is one year or less, the Group does not adjust the promised amount of consideration for the effects of a significant financing component.

#### a) Revenue from sale of goods

Revenue from sale of goods comes from sales of transformers, distribution panels, low voltage switch and substation equipment. Sales of goods are recognized as revenue when the goods are delivered to the customer's specific location, FOB and on shipping because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivable is recognized concurrently. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been reached to the specified conditions.

#### b) Construction contract revenue

The customer controls the property as it is constructed in progress and, thus, the Group recognizes revenue over time. The Group measures the progress on the basis of costs incurred relative to the total expected costs as there is a direct relationship between the costs incurred and the progress of satisfying the performance obligation. A contract asset is recognized during the construction and is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognized to date, then the Group recognizes a contract liability for the difference. Certain payment retained by the customer as specified in the contract is intended to ensure that the Group adequately completes all its contractual obligations. Such retention receivables are recognized as contract assets until the Group satisfies its performance.

## 2017

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. Allowances for sales returns and liabilities for 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.

### a) Sale of goods

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

- i. The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ii. The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- iii. The amount of revenue can be measured reliably;
- iv. It is probable that the economic benefits associated with the transaction will flow to the Group; and
- v. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### b) Rendering of services

Service income is recognized when services are provided.

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

### c) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that 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 applicable effective interest rate.

## 4) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

## 5) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2017 except for the following statements.

### a. Business model assessment for financial assets - 2018

The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement about all relevant evidence including how the performance of the assets is evaluated, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost or fair value through other comprehensive income, and when assets are derecognized prior to their maturity, the Group understands the reason for their disposal and whether the reasons are consistent with the objective of the business for which the assets were held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets is proper.

### b. Estimated impairment of financial assets - 2018

The provision for impairment of trade receivables, investments in debt instruments and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise.