Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies that are required to be included in the consolidated financial statements of affiliates as of and for the year ended December 31, 2018, 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 of parent and subsidiary companies 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 of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

FORTUNE ELECTRIC CO., LTD.

By

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March 22, 2019

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, 2018 and 2017, 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, 2018 and 2017, 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 judgment, 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, 2018. 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.

The key audit matters for the Group's consolidated financial statements for the year ended December 31, 2018 is stated as follows:

Cut-off of Revenue Recognition

According to IFRS 15, an enterprise meets the criteria for revenue recognition only when the performance obligations are satisfied. 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 therefore, the cut-off of revenue recognition has been deemed as a key audit matter. Refer to Note 4 to the consolidated financial statements for the accounting policies and details of 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 tested revenue recognized before and after the end of the year on a sample basis 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 met the criteria.

Other Matter

The financial statements of Hitachi Fortune Transformer, Inc. which was accounted for using the equity method were audited by other auditors. Therefore, our opinion regarding the investment accounted for using the 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 using the equity method not audited by us amounted to $10,152 thousand and $10,899 thousand, representing 4.57% and 4.59% of consolidated total assets as of December 31, 2018 and 2017, respectively. The related share of comprehensive loss from associates accounted for using the equity method not audited by us amounted to $408 thousand and $2,316 thousand, representing (25.06%) and (100.43%) of the consolidated comprehensive income for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 on which we have issued an unmodified opinion with an other matter paragraph.

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 judgment 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, 2018 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 22, 2019

Notice to Readers

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, 2018 AND 2017
(In Thousands of NT$ and US$)

	2018		2017
ASSETS	**NT$**	**US$ (Note)**	**NT$**
CURRENT ASSETS			
Cash (Notes 4 and 6)	$ 97,983	$ 3,190	$ 110,650
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 34)	4,364	142	126
Derivative financial assets for hedging (Notes 4, 9 and 34)	-	-	10
Contract assets (Notes 4, 26 and 28)	597,067	19,439	-
Debt investments with no active market - current (Notes 4, 12 and 36)	-	-	5,165
Notes receivable (Note 28)	30,382	989	82,229
Trade receivables from unrelated parties (Notes 4, 5, 13, 26 and 28)	2,102,158	68,441	2,807,155
Trade receivables from related parties (Notes 13 and 35)	-	-	2,067
Amounts due from customers for construction contracts (Notes 4, 14 and 26)	-	-	334,278
Current tax assets (Notes 4 and 30)	9,310	303	541
Inventories, net (Notes 4 and 15)	2,004,575	65,264	1,781,574
Prepayments	72,246	2,352	71,044
Other current assets (Notes 20, 26 and 36)	121,082	3,942	49,469
Total current assets	5,039,167	164,062	5,244,308
NON-CURRENT ASSETS			
Financial assets at fair value through other comprehensive income (Notes 4 and 8)	43,707	1,423	-
Financial assets at amortized cost - non-current (Notes 4, 10 and 36)	1,272	41	-
Financial assets measured at cost (Notes 4 and 11)	-	-	30,310
Debt investments with no active market - non-current (Notes 4, 12 and 36)	-	-	1,272
Investments accounted for using the equity method (Notes 4 and 17)	313,162	10,196	325,400
Property, plant and equipment (Notes 4, 18 and 36)	1,317,950	42,909	1,367,183
Intangible assets (Notes 4 and 19)	20,716	674	9,735
Deferred tax assets (Notes 4, 5 and 30)	58,529	1,906	54,534
Prepayments for equipment	5,680	185	8,271
Refundable deposits (Note 36)	4,166	136	4,071
Long-term prepayments for leases (Notes 20 and 36)	22,509	733	23,671
Total non-current assets	1,787,691	58,203	1,824,447
TOTAL	$ 6,826,858	$ 222,265	$ 7,068,755
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Short-term borrowings (Notes 21, 34 and 36)	$ 361,114	$ 11,757	$ 867,280
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 34)	107	4	311
Derivative financial liabilities for hedging (Notes 4, 9 and 34)	-	-	27
Contract liabilities (Notes 4, 26 and 28)	542,592	17,665	-
Notes payable	-	-	3,261
Trade payables to unrelated parties (Notes 22 and 26)	1,587,175	51,674	1,570,611
Trade payables to related parties (Note 35)	32,340	1,053	-
Amounts due to customers for construction contracts (Notes 4, 14 and 26)	-	-	28
Other payables (Notes 23 and 34)	148,080	4,821	191,596
Current tax liabilities (Notes 4 and 30)	131	4	22
Provisions (Note 24)	9,834	320	-
Advance receipts	-	-	235,057
Other current liabilities	34,854	1,135	38,215
Total current liabilities	2,716,227	88,433	2,906,408
NON-CURRENT LIABILITIES			
Long-term borrowings (Notes 21, 34 and 36)	741,800	24,151	741,800
Deferred tax liabilities (Notes 4 and 30)	67,728	2,205	57,437
Net defined benefit liabilities (Notes 4 and 25)	222,775	7,253	244,742
Other non-current liabilities	15,132	493	3,317
Total non-current liabilities	1,047,435	34,102	1,047,296
Total liabilities	3,763,662	122,535	3,953,704
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	2,610,585	84,994	2,610,585
Capital surplus	1,251	41	1,179
Retained earnings			
Legal reserve	354,326	11,536	345,050
Special reserve	15,251	497	11,231
Unappropriated earnings	97,442	3,172	160,916
Total retained earnings	467,019	15,205	517,197
Other equity			
Exchange differences on translating foreign operations	(19,448)	(633)	(15,234)
Unrealized gain or loss on financial assets at fair value through other comprehensive income	8,175	266	-
Cash flow hedges	-	-	(17)
Total other equity	(11,273)	(367)	(15,251)
Total equity attributable to owners of the Company	3,067,582	99,873	3,113,710
NON-CONTROLLING INTERESTS	(4,386)	(143)	1,341
Total equity	3,063,196	99,730	3,115,051
TOTAL	$ 6,826,858	$ 222,265	$ 7,068,755

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$30.715 to US$1.00 at December 31, 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 and Touche auditors' report dated March 22, 2019)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of NT$ and US$, Except Earnings Per Share)

	2018		2017
	NT$	US$ (Note)	NT$
OPERATING REVENUE (Notes 4, 14, 28, 35, 37 and 40)			
Sales	$ 5,387,348	$ 175,398	$ 5,486,822
Construction revenue	609,215	19,834	382,868
Total operating revenue	5,996,563	195,232	5,869,690
OPERATING COSTS (Notes 4, 15, 25, 29 and 35)			
Cost of goods sold	4,444,018	144,685	4,526,763
Construction costs	928,297	30,223	604,391
Total operating costs	5,372,315	174,908	5,131,154
GROSS PROFIT	624,248	20,324	738,536
OPERATING EXPENSES (Notes 25, 29, 35, 37 and 40)			
Selling and marketing expenses	386,140	12,572	365,168
General and administrative expenses	127,444	4,149	115,298
Research and development expenses	97,517	3,175	101,287
Total operating expenses	611,101	19,896	581,753
PROFIT FROM OPERATIONS	13,147	428	156,783
NON-OPERATING INCOME AND EXPENSES			
Government grants (Note 4)	20,315	661	11,279
Other gains and losses (Note 29)	9,526	310	36,130
Share of loss of associates (Note 17)	(12,297)	(400)	(69,198)
Other income (Notes 29 and 35)	74,347	2,421	15,595
Finance costs	(29,819)	(971)	(24,621)
Total non-operating income and expenses	62,072	2,021	(30,815)
PROFIT BEFORE INCOME TAX	75,219	2,449	125,968
INCOME TAX EXPENSE (Notes 4 and 30)	22,006	717	34,683
NET PROFIT FOR THE YEAR	53,213	1,732	91,285

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of NT$ and US$, Except Earnings Per Share)

	2018		2017
	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 (Note 25)	$ (10,726)	$ (349)	$ (22,464)
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income	5,750	187	-
Income tax relating to items that will not be classified subsequently to profit or loss (Note 30)	4,889	159	3,819
	(87)	(3)	(18,645)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	(3,131)	(102)	(3,593)
Unrealized gain (loss) on available-for-sale financial assets	-	-	(75)
Cash flow hedges (Note 9)	17	1	(300)
Share of the other comprehensive income (loss) of associates accounted for using the equity method	59	2	(57)
	(3,055)	(99)	(4,025)
Total other comprehensive income and loss	(3,142)	(102)	(22,670)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 50,071	$ 1,630	$ 68,615
NET PROFIT ATTRIBUTABLE TO:			
Owners of the Company	$ 60,082	$ 1,956	$ 92,764
Non-controlling interests	(6,869)	(224)	(1,479)
	$ 53,213	$ 1,732	$ 91,285
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company	$ 55,798	$ 1,816	$ 70,099
Non-controlling interests	(5,727)	(186)	(1,484)
	$ 50,071	$ 1,630	$ 68,615

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FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of NT$ and US$, Except Earnings Per Share)

	2018		2017
	NT$	**US$ (Note)**	**NT$**
EARNINGS PER SHARE (Note 31)			
From continuing operations			
Basic	$0.23	$0.01	$0.36
Diluted	$0.23	$0.01	$0.35

(Continued)

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$30.715 to US$1.00 at December 31, 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 and Touche auditors' report dated March 22, 2019) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands)

	Equity Attributable to Owners of the Company													
			Retained Earnings (Notes 25, 27 and 30)				Other Equity (Notes 4, 9 and 27)							
	Share Capital (Note 27)	Capital Surplus (Note 27)	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain or Loss on Available-for- sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Total	Controlling Interests	Non-controlling Interests	Total Equity
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)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(7,238)	7,238	-	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company - NT$0.8 per 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
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 distributed by the Company - NT$0.4 per share	-	-	-	-	(104,423)	(104,423)	-	-	-	-	-	(104,423)	-	(104,423)
	-	-	9,276	4,020	(117,719)	(104,423)	-	-	-	-	-	(104,423)	-	(104,423)
Unclaimed cash dividends	-	72	-	-	-	-	-	-	-	-	-	72	-	72
Net profit (loss) for the year ended December 31, 2018	-	-	-	-	60,082	60,082	-	-	-	-	-	60,082	(6,869)	53,213
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(5,837)	(5,837)	(4,214)	-	5,750	17	1,553	(4,284)	1,142	(3,142)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	54,245	54,245	(4,214)	-	5,750	17	1,553	55,798	(5,727)	50,071
BALANCE AT DECEMBER 31, 2018	$ 2,610,585	$ 1,251	$ 354,326	$ 15,251	$ 97,442	$ 467,019	$ (19,448)	$ -	$ 8,175	$ -	$ (11,273)	$ 3,067,582	$ (4,386)	$ 3,063,196
BALANCE AT DECEMBER 31, 2018 (IN U.S. DOLLARS)	$ 84,994	$ 41	$ 11,536	$ 497	$ 3,172	$ 15,205	$ (633)	$ -	$ 266	$ -	$ (367)	$ 99,873	$ (143)	$ 99,730

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$30.715 to US$1.00 at December 31, 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 auditors' report dated March 22, 2019)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands)

	2018		2017
	NT$	US$ (Note)	NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	$ 75,219	$ 2,449	$ 125,968
Adjustments for:			
Depreciation expenses	84,158	2,740	82,655
Amortization expenses	6,401	208	7,929
Expected credit loss recognized/ Impairment loss reversed on trade receivables	1,134	37	(4,824)
Net gain or loss on financial instruments at fair value through profit or loss	(4,257)	(139)	185
Finance costs	29,819	971	24,621
Interest income	(1,040)	(34)	(1,484)
Share of loss of associate	12,297	400	69,198
Gain or loss on disposal of property, plant and equipment	(2,442)	(80)	128
Net gain on disposal of available-for-sale financial assets	-	-	(29,304)
Write-down of inventories	3,869	126	106
Unrealized net gain or loss on foreign currency exchange	4,349	142	(1,280)
Prepayment for leases	680	22	752
Changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(185)	(6)	3,018
Contract assets	(54,430)	(1,772)	-
Notes receivable	51,660	1,682	(32,174)
Trade receivables	530,953	17,286	(600,462)
Trade receivables from related parties	2,292	75	24,545
Amounts due from customers for construction contracts	-	-	107,888
Inventories	(230,610)	(7,508)	134,731
Prepayments	(1,667)	(54)	19,637
Other current assets	(71,751)	(2,336)	23,787
Contract liabilities	248,801	8,100	-
Notes payable	(3,261)	(106)	3,261
Trade payables	79,766	2,597	166,517
Trade payables to related parties	32,115	1,046	(11,529)
Amounts due to customers for construction contracts	-	-	(19,920)
Other payables	(46,764)	(1,523)	(70,107)
Provisions	(34,561)	(1,125)	-
Receipts in advance	-	-	(254,969)

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands)

	2018		2017
	NT$	US$ (Note)	NT$
Other current liabilities	$ (3,361)	$ (109)	$ (13,799)
Net defined benefit liabilities	(32,693)	(1,064)	(35,235)
Cash generated from (used in) operations	676,491	22,025	(280,161)
Interest received	1,040	34	1,484
Interest paid	(27,643)	(900)	(25,482)
Income tax paid	(19,780)	(644)	(45,662)
Net cash generated from (used in) operating activities	630,108	20,515	(349,821)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of financial assets measured at cost	5,165	168	-
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 the equity method	-	-	(1,385)
Payments for property, plant and equipment	(27,388)	(892)	(37,564)
Proceeds from disposal of property, plant and equipment	2,877	94	50
Decrease (increase) in refundable deposits	373	12	(1,616)
Payments for intangible assets	(14,966)	(487)	(4,902)
Increase in prepayments for equipment	(4,555)	(148)	(4,077)
Net cash (used in) generated from investing activities	(38,494)	(1,253)	76,109
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments of) proceeds from short-term borrowings	(507,082)	(16,509)	484,301
Proceeds from guarantee deposits received	11,815	385	665
Issue of cash dividends	(104,423)	(3,400)	(208,847)
Unclaimed cash dividends	72	2	146
Net cash (used in) generated from financing activities	(599,618)	(19,522)	276,265
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(4,663)	(152)	(2,340)

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands)

	2018		2017
	NT$	US$ (Note)	NT$
NET (DECREASE) INCREASE IN CASH	$ (12,667)	$ (412)	$ 213
CASH AT THE BEGINNING OF THE YEAR	110,560	3,602	110,437
CASH AT THE END OF THE YEAR	$ 97,893	$ 3,190	$ 110,650

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$30.715 to US$1.00 at December 31, 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 and Touche auditors' report dated March 22, 2019) (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 (“TWSE”) since April 1997.

For greater comparability and consistency of financial reporting, the Chinese edition of the consolidated financial statements are presented in New Taiwan dollars since the Company’s shares are listed on the TWSE.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 22, 2019.

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 Financial Supervisory Commission (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 amendments

      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 starting 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 as of December 31, 2017.

      Classification, measurement and impairment of financial assets

      On the basis of the facts and circumstances that existed as of 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 amounts 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 of January 1, 2018.

Financial Assets	Measurement Category IAS 39	Measurement Category IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9	Remark
Cash	Loans and receivables	Amortized cost	$ 3,718	$ 3,718	c)
Equity securities	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	1,019	1,100	a)
Pledged time deposits	Loans and receivables	Amortized cost	217	217	b)
Notes receivable and trade receivables	Loans and receivables	Amortized cost	97,159	97,159	c)
Refundable deposits	Loans and receivables	Amortized cost	217	217	c)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remeasure-ments	IFRS 9 Carrying Amount as of January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTOCI	$ -					
Equity instruments						
Add: Remeasurement from financial assets at amortized cost (IAS 39)	-	$ 1,019	$ 81			a)
	-	1,019	81	$ 1,100	$ 81	
Amortized cost	-					
Add: Reclassification from loans and receivables (IAS 39)	-	101,311	-			b) and c)
	-	101,311	-	101,311	-	
	$ -	$ 102,330	$ 81	$ 102,411	$ 81	

Note: The translation of New Taiwan dollar amounts into U.S. dollars has been made at the rate of NT$29.76 to US$1.00 at January 1, 2018.

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 $81 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 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 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 from forecasted purchases of equipment, the forward element of forward contracts was excluded from the designated hedging relationships, and the related changes were 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 starting from January 1, 2018.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

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 the related accounting policies.

If the customer has retained a portion of payments to the Group in accordance with the terms 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 contracts were recognized as receivables and discounted to reflect the 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, the costs incurred and the recognized profit (loss) of construction contracts were recognized as amounts due from (to) customers for construction contracts under IAS 11. Receivables were recognized or deferred revenue was reduced when revenue was recognized for the relevant contract under IAS 18.

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

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and recognize the cumulative effect of the change in 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 the Group identified the performance obligations and determined and allocated the transaction price in a manner that reflected the aggregate effect of all modifications that occurred on or 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.

The impact on assets and liabilities as of January 1, 2018 from the initial application of IFRS 15 is set out below:

	As Originally Stated	Adjustments Arising from Initial Application	Restated
Contract assets	$ -	$ 18,234	$ 18,234
Trade receivables from unrelated parties	94,326	(5,510)	88,816
Amounts due from customers for construction contracts	11,233	(11,233)	-
Total effect on assets	$ 105,559	$ 1,491	$ 107,050
Contract liabilities	$ -	$ 9,881	$ 9,881
Trade payables from unrelated parties	52,776	(1,982)	50,794
Amounts due to customers for construction contracts	1	(1)	-
Deferred revenue	7,898	(7,898)	-
Provisions	-	1,492	1,492
Total effect on liabilities	$ 60,675	$ 1,492	$ 62,167

Note: The translation of New Taiwan dollar amounts into U.S. dollars has been made at the rate of NT$29.76 to US$1.00 at January 1, 2018.

Had the Group applied IAS 11 and IAS 18 in the current year, the following adjustments should have been made to reflect the line items and balances under IFRS 15.

Impact on assets and liabilities for the current year

	December 31, 2018
Increase in trade receivables from unrelated parties	$ 4,680
Increase in amounts due from customers for construction contracts	14,759
Decrease in contract assets	(19,439)
Decrease in assets	$ -
Increase in trade payables to unrelated parties	$ 7,894
Increase in amounts due to customers for construction contracts	-
Increase in advance receipts	10,091
Decrease in contract liabilities	(17,665)
Decrease in provisions	(320)
Decrease in liabilities	$ -

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. The Group applied the above amendments retrospectively in 2018.

4) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

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

The Group 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

New, Amended or Revised Standards and Interpretations (the "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)
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 the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. 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 asset 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. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

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.

Anticipated impact on assets and liabilities

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Prepayments for leases - current (included in other current assets)	$ 22	$ (22)	$ -
Long-term prepayments for leases	733	(733)	-
Right-of-use assets	-	985	985
Total effect on assets	$ 755	$ 230	$ 985
Lease liabilities	$ -	$ 230	$ 230
Total effect on liabilities	$ -	$ 230	$ 230

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 Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

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 assessed that the amendments of other standards and interpretations will not have a significant impact on the Group's financial position and financial performance.

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)
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 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 POLICIES

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 value 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 is engaged in the business of electrical equipment works contracting services, 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 contracts - 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 16 and Tables 3 and 4 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. The resulting currency translation differences are recognized in other comprehensive income and 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. Investments 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 the changes in the Group's share of the equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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 new shares of the 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 not allocated to any asset that forms part of the carrying amount of the investment. 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.

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 and assets related to contract costs

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.

The 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.

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract applicable under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the asset, cash-generating unit or assets related to contract costs 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

      2018

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

      i. Financial assets at FVTPL

         Financial assets are classified as at FVTPL when such financial assets are mandatorily classified as at FVTPL. 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 34.

      ii. Financial assets at amortized cost

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

         i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

         ii) 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, notes receivable and trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using 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 such a financial asset, except for:

         i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

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 as 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, it 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 such financial assets are 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 34.

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 as 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 the 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) 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 and contract assets

<u>2018</u>

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 losses (i.e. ECLs) for trade receivables and contract assets. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a 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 ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs 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 such a financial asset.

<u>2017</u>

Financial assets, other than those at FVTPL, 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 such financial assets, that the estimated future cash flows of the investment have been affected.

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.

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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting 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 which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through 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 liabilities are 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 34.

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.

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.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Onerous contracts

Onerous contracts are those in which the Group's unavoidable costs of meeting the contractual obligations exceed the economic benefits expected to be received from the contract. The present obligations arising under onerous contracts are recognized and measured as provisions.

n. Revenue recognition

2018

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

For contracts where the period between the date on which the Group transfers a promised good or service to a customer and the date on which 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.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of transformers, distribution panels, low voltage switches 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 receivables are recognized concurrently. The transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

2) Construction contract revenue

   Customers control properties while they are construction 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 obligations. Contract assets are recognized during the construction and are reclassified to trade receivables at the point at which the customer is invoiced. If the milestone payments exceed the revenue recognized to date, then the Group recognizes contract liabilities for the difference. Certain payments, which are retained by the customer as specified in the contract, are intended to ensure that the Group adequately completes all of its contractual obligations. Such retention receivables are recognized as contract assets until the Group satisfies its performance obligations.

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. 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.

o. Construction contracts

2017

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 sheets as advance receipts. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheets under trade receivables.

p. 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.

2) The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

q. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached 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.

r. Retirement benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expense when employees have rendered services 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 liabilities (assets) are recognized as employee benefits expense in the period in which 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 liabilities (assets) represent the actual deficit (surplus) 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.

3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plans except that remeasurement is recognized in profit or loss.

s. 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 on unappropriated earnings is provided for as income tax in the year the shareholders approve to retain 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. 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 judgment 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 at fair value through other comprehensive income, and when assets are derecognized prior to their maturity, the Group understands the reasons 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 the business model such that 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 is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group’s historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 13. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

c. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such 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.

6. CASH

	December 31	
	2018	**2017**
Cash on hand	$ 23	$ 24
Checking accounts and demand deposits	3,167	3,694
	$ 3,190	$ 3,718

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

	December 31	
	2018	**2017**
Bank balance	0.001%-0.48%	0.001%-0.35%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	**2017**
Financial assets at FVTPL - current		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts	$ 142	$ 4
Financial liabilities at FVTPL - current		
Derivative financial liabilities (not under hedge accounting)		
Foreign exchange forward contracts	$ (4)	$ (11)

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, 2018			
Buy	NTD/USD	2019.01.02-2019.11.01	NTD204,385/USD6,858
Buy	NTD/JPY	2019.01.22	NTD20,331/JPY75,328

(Continued)

	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

(Concluded)

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. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	December 31, 2018
Non-current	
Domestic investments	
Unlisted shares	
Ordinary shares - Raynergy Tek Incorporation	$ 1,423

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Note 3 and Note 11 for information relating to their reclassification and comparative information for 2017.

In January 2018, the Group converted receivables in the amount of $170 thousand from ProMOSTech Co., Ltd. into its ordinary shares in the form of a debt for equity swap, which were recognized as financial assets at FVTOCI, and the shareholding ratio after the swap was 0.12%. However, the Group's management assessed that the fair value was very low, and recognized the full amount as an impairment loss, with a carrying amount of zero as of December 31, 2018.

9. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

2018

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

For the hedges of highly probable forecasted sales and purchases, as the critical terms (i.e. the notional amount, life and underlying) of the forward foreign exchange contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates.

The source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the forward exchange contracts, which is not reflected in the fair value of the hedged item attributable to changes in foreign exchange rates. No other sources of ineffectiveness is expected to emerge from these hedging relationships.

2017

The hedging policy for foreign currency risk is the same in 2018 and 2017 and the information relating to the hedges was as follows:

	December 31, 2017
Derivative financial assets under hedge accounting - current	
Cash flow hedges	
Foreign exchange forward contracts	$ -
Derivative financial liabilities under hedge accounting - current	
Cash flow hedges	
Foreign exchange forward contracts	$ (1)

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

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 excessive exchange rate exposure to forecasted sales and purchases. Those foreign exchange forward contracts were designated as cash flow hedges. During 2018 and 2017, fair value gain (loss) of $1 thousand and $(10) thousand from exchange rate changes of forecasted sales and purchases were recognized respectively in other comprehensive income. The forecasted 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 AT AMORTIZED COST - 2018

	December 31, 2018
Pledged time deposits	
Non-current	$ 41

Pledged time deposits were classified as debt investments with no active market under IAS 39. Refer to Note 3 and Note 12 for information relating to their reclassification and comparative information for 2017. Refer to Note 36 for information relating to investments in financial assets at amortized cost pledged as security.

11. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2017
Classified according to financial asset measurement categories	
Available-for-sale financial assets	
Domestic unlisted ordinary shares	$ 1,019

12. DEBT INVESTMENTS WITH NO ACTIVE MARKET - 2017

	December 31, 2017
Pledged time deposits	
Current	$ 174
Non-current	43
	$ 217

Refer to Note 36 for information relating to debt investments with no active market pledged as security.

13. TRADE RECEIVABLES

	December 31 2018	December 31 2017
Trade receivables		
At amortized cost		
Gross carrying amount	$ 69,186	$ 95,062
Less: Allowance for impairment loss	(745)	(736)
	$ 68,441	$ 94,326
Trade receivables from related parties	$ -	$ 70

In 2018

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 an individual account basis, and by account aging analysis, historical experience and current financial condition of customers.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

	Not Past Due	1 to 60 Days	61 to 90 Days	91 to 275 Days	276 to 640 Days	Over 641 Days	Total
Expected credit loss rate	0.00%	0.07%	0.43%	0.62%	2.33%	7.96%	
Gross carrying amount	$ 43,631	$ 4,276	$ 1,253	$ 4,098	$ 9,875	$ 6,053	$ 69,186
Loss allowance (Lifetime ECLs)	-	(3)	(5)	(25)	(230)	(482)	(745)
Amortized cost	$ 43,631	$ 4,273	$ 1,248	$ 4,073	$ 9,645	$ 5,571	$ 68,441

The movements of the loss allowance of trade receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	$ 736
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	736
Add: Net remeasurement of loss allowance	37
Less: Amounts written off	(1)
Foreign exchange gains and losses	(27)
Balance at December 31, 2018	$ 745

In 2017

The Group applied the same credit policy in 2018 and 2017. The Group recognized an allowance for impairment loss against all receivables based on individually assessed for impairment, aging analysis, historical experience and analysis of their current financial position.

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

	December 31, 2017
0-90 days	$ 58,868
91-150 days	6,237
151-180 days	603
181-365 days	14,922
366-730 days	8,225
More than 730 days	6,277
	$ 95,132

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.

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, 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 amounted to $11,634 thousand as of December 31, 2017. Retentions receivable from construction contracts bears no interest and is 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 14 for details of construction contracts.

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

	December 31, 2017
Amount due from customers for construction contracts	
Construction costs incurred plus recognized profits less recognized losses to date	$ 44,095
Less: Progress billings	(32,862)
	$ 11,233

(Continued)

	December 31, 2017
Amount due to customers for construction contracts	
Construction costs incurred plus recognized profits less recognized losses to date	$ 12,606
Less: Progress billings	(12,607)
	$ (1)
Retentions receivable (included in trade receivables)	$ 11,634
Retentions payable (included in trade payables)	$ 7,780

(Concluded)

In accordance with IAS 11, the revenue from construction contracts for the year ended December 31, 2017 was $12,865 thousand.

15. INVENTORIES

	December 31	
	2018	2017
Finished goods	$ 7,948	$ 7,334
Work in progress	45,043	38,682
Raw materials	12,273	13,849
	$ 65,264	$ 59,865

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $144,285 thousand and $151,732 thousand, respectively.

The cost of goods sold for the years ended December 31, 2018 and 2017 included write-down of inventories of $126 thousand and $4 thousand, respectively.

16. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements:

			% of Ownership December 31	
Investor	**Investee**	**Main Business**	**2018**	**2017**
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

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

	December 31	
	2018	2017
Material associates		
Hitachi Fortune Transformer, Inc.	$ 10,152	$ 10,899
Associates that are not individually material		
E-Total Link	44	35
	$ 10,196	$ 10,934

a. Material associates

	Proportion of Ownership and Voting Rights December 31	
	2018	2017
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 $45,971 thousand. The Group invested $18,388 thousand and acquired 40% ownership of Hitachi Fortune Company.

For the main business and products, location and registration information of the above associate, refer to Table 3.

The investments accounted for using 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	
	2018	2017
Current assets	$ 14,131	$ 8,535
Non-current assets	38,984	42,967
Current liabilities	(27,735)	(24,254)
Equity	$ 25,380	$ 27,248
Proportion of the Group's ownership	40.00%	40.00%
Carrying amount	$ 10,152	$ 10,899

	For the Year Ended December 31	
	2018	2017
Revenue	$ 19,843	$ 5,588
Net loss for the year	$ (1,021)	$ (5,789)
Total comprehensive loss for the year	$ (1,021)	$ (5,789)

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 $45 thousand and acquired 25% ownership of E-Total Link.

	For the Year Ended December 31	
	2018	2017
The Group’s share of:		
Net profit (loss) for the year	$ 8	$ (10)
Other comprehensive income (loss)	2	(2)
Total comprehensive income (loss) for the year	$ 10	$ (12)

For the main business and products, location and registration information of the above associate, refer to Table 3.

The investments accounted for using 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.

18. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Equipment	Photovoltaic Solar Equipment	Other Equipment	Total
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 1)	-	-	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
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

(Continued)

	Freehold Land	Buildings	Equipment	Photovoltaic Solar Equipment	Other Equipment	Total
Carrying amounts at December 31, 2017	$ 21,365	$ 12,042	$ 6,506	$ 3,579	$ 2,448	$ 45,940
Cost						
Balance at January 1, 2018	$ 21,365	$ 24,258	$ 39,272	$ 5,094	$ 5,345	$ 95,334
Additions	-	96	700	-	96	892
Disposals	-	(15)	(1,348)	-	(79)	(1,442)
Transfer (Note 1)	-	-	134	-	-	134
Transfer (Note 2)	-	154	-	-	-	154
Effect of foreign currency exchange differences	(664)	(792)	(1,320)	(159)	(173)	(3,108)
Balance at December 31, 2018	$ 20,701	$ 23,701	$ 37,438	$ 4,935	$ 5,189	$ 91,964
Accumulated depreciation						
Balance at January 1, 2018	$ -	$ 12,216	$ 32,766	$ 1,515	$ 2,897	$ 49,394
Depreciation expense	-	712	1,447	251	330	2,740
Disposals	-	(14)	(1,336)	-	(78)	(1,428)
Effect of foreign currency exchange differences	-	(409)	(1,098)	(48)	(96)	(1,651)
Balance at December 31, 2018	$ -	$ 12,505	$ 31,779	$ 1,718	$ 3,053	$ 49,055
Carrying amounts at December 31, 2018	$ 20,701	$ 11,196	$ 5,659	$ 3,217	$ 2,136	$ 42,909

(Concluded)

Note 1: Transferred from inventories to equipment.

Note 2: Transferred from prepayments for equipment to buildings.

No impairment assessment was performed for the years ended December 31, 2018 and 2017 as there was no indication of impairment.

The above items of property, plant and equipment are depreciated on a straight-line basis over their 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 36 for the carrying amount of property, plant and equipment pledged by the Group to secure borrowings.

19. INTANGIBLE ASSETS

	Computer Software
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
Cost	
Balance at January 1, 2018	$ 1,396
Additions	487
Reclassifications	79
Disposals	(116)
Net exchange differences	(43)
Balance at December 31, 2018	$ 1,803
Accumulated depreciation	
Balance at January 1, 2018	$ 1,069
Amortization expenses	208
Disposals	(116)
Net exchange differences	(32)
Balance at December 31, 2018	$ 1,129
Carrying amount at December 31, 2018	$ 674

Computer software is amortized on a straight-line basis over its estimated useful life of 3 to 5 years.

20. PREPAYMENTS FOR LEASE

	December 31	
	2018	2017
Current (included in other current assets)	$ 22	$ 23
Non-current	733	795
	$ 755	$ 818

Prepaid lease payments include the land use rights for land in mainland China.

Refer to Note 36 for the carrying amounts of prepayments for leases that had been pledged by the Group to secure borrowings.

21. BORROWINGS

a. Short-term borrowings

	December 31	
	2018	2017
Secured borrowings (Note 36)		
Bank loans	$ 5,384	$ 9,145
Usance letters of credit	2,447	2,335
	7,831	11,480
Unsecured borrowings		
Line of credit borrowings	-	14,852
Usance letters of credit	3,926	2,810
	3,926	17,662
	$ 11,757	$ 29,142

The ranges of weighted average effective interest rate on bank loans were 0.45%-4.79% and 0.47%-5.00% per annum as of December 31, 2018 and 2017, respectively.

b. Long-term borrowings

	December 31	
	2018	2017
Secured borrowings (Note 36)		
Bank of Taiwan	$ 16,279	$ 16,801
Mega International Commercial Bank	7,872	8,125
	$ 24,151	$ 24,926

The original term of the borrowings from Bank of Taiwan was from December 4, 2013 to March 29, 2019. In March 2018, the Company negotiated the new loan period from March 28, 2018 to March 28, 2020 with the bank. The weighted average effective interest rate of the borrowings was both 1.26% per annum for the years ended December 31, 2018 and 2017, respectively.

The original term of the borrowings from Mega International Commercial Bank was from October 7, 2014 to October 7, 2019. In September 2018, the company negotiated the new loan period from September 14, 2018 to September 14, 2021 with the bank. The weighted average effective interest rate of the borrowings was both 1.47% per annum for the years ended December 31, 2018 and 2017, respectively.

22. TRADE PAYABLES

	December 31	
	2018	2017
Operating	$ 51,674	$ 52,776

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 was $9,551 thousand as of December 31, 2017. 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 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 14 for details of construction contracts.

23. OTHER PAYABLES

	December 31	
	2018	2017
Accrued payroll	$ 1,606	$ 1,977
Commission payable	500	418
Design fees payable	431	810
Payable for employee's compensation and remuneration of directors'	266	381
Export payable	224	1,497
Interest payable	100	60
Others	1,694	1,295
	$ 4,821	$ 6,438

24. PROVISIONS

	December 31	
	2018	2017
Onerous contracts	$ 320	$ -

The provision for onerous contracts represents the present value of the future payments that the Group was presently obligated to make under non-cancellable onerous operating contracts less revenue expected to be earned on the contracts.

25. 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	
	2018	**2017**
Present value of defined benefit obligation	$ 13,314	$ 13,278
Fair value of plan assets	(6,061)	(5,054)
Net defined benefit liabilities	$ 7,253	$ 8,224

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liability**
Balance at January 1, 2017	$ 11,556	$ (3,571)	$ 7,985
Current service cost	202	-	202
Net interest expense (income)	161	(53)	108
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

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2018	$ 13,278	$ (5,054)	$ 8,224
Current service cost	186	-	186
Net interest expense (income)	147	(59)	88
Recognized in profit or loss	333	(59)	274
Remeasurement			
Return on plan assets	-	(134)	(134)
Actuarial loss - changes in demographic assumptions	139	-	139
Actuarial loss - experience adjustments	344	-	344
Recognized in other comprehensive income	483	(134)	349
Contributions from the employer	-	(1,338)	(1,338)
Benefits paid	(336)	336	-
Effects of foreign currency exchange differences	(444)	188	(256)
Balance at December 31, 2018	$ 13,314	$ (6,061)	$ 7,253

(Concluded)

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	
	2018	2017
Operating costs	$ 175	$ 197
Selling and marketing expenses	37	44
General and administrative expenses	38	41
Research and development expenses	24	28
	$ 274	$ 310

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	
	2018	2017
Discount rate	1.05%	1.15%
Expected return rate of plan assets	1.05%	1.15%
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	
	2018	2017
Discount rate		
0.25% increase	$ (343)	$ (360)
0.25% decrease	$ 356	$ 374
Expected rate of salary increase		
0.25% increase	$ 347	$ 366
0.25% decrease	$ (337)	$ (354)

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	
	2018	2017
The expected contributions to the plan for the next year	$ 661	$ 690
The average duration of the defined benefit obligation	10 years	11 years

26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	December 31, 2018		
	Within 1 Year	More Than 1 Year	Total
Assets			
Refundable deposits (included in other current assets)	$ 5	$ 1	$ 6
Contract assets	$ 18,085	$ 1,354	$ 19,439
Liabilities			
Contract liabilities	$ 6,564	$ 1,010	$ 7,574

	December 31, 2017		
	Within 1 Year	More Than 1 Year	Total
Assets			
Refundable deposits (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

27. EQUITY

a. Share capital - ordinary shares

	December 31	
	2018	2017
Number of shares authorized (in thousands)	275,000	275,000
Shares authorized	$ 89,533	$ 92,406
Number of shares issued and fully paid (in thousands)	261,059	261,059
Shares issued	$ 84,994	$ 87,721

b. Capital surplus

	December 31	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital		
Arising from treasury share transactions	$ 34	$ 34
Unclaimed cash dividends	7	5
	$ 41	$ 39

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

Under the dividend policy as set forth in the amended Articles, where the Company made a 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 bonuses to shareholders. For the policies on distribution of employees’ compensation and remuneration of directors before and after amendment, please refer to employees’ compensation and remuneration of directors in Note 29 (d).

The Company is currently in the growth stage. The Company distributes stock dividends and cash dividends 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 total annual dividends distributed.

Appropriation of earnings to the legal reserve shall be made until the legal reserve equals the Company’s paid-in capital. The 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.

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.

The appropriations of earnings for 2017 and 2016 which have been approved in the shareholders’ meetings on June 12, 2018 and June 14, 2017, respectively, were as follows:

	Appropriation of Earnings For the Year Ended December 31		**Dividends Per Share (Dollar) For the Year Ended December 31**	
	2017	**2016**	**2017**	**2016**
Appropriation for legal reserve	$ 311	$ 777		
Appropriation for (reversal of) special reserve	135	(224)		
Appropriation for cash dividends	3,509	6,476	$ 0.01	$ 0.02

The appropriations of earnings for 2018 had been proposed by the Company’s board of directors on March 22, 2019. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (Dollar)**
Appropriation for legal reserve	$ 196	
Reversal of special reserve	(130)	
Appropriation for cash dividends	2,550	$0.01

The appropriations of earnings for 2018 are subject to the resolution in the shareholders’ meeting expected to be held on June 13, 2019.

d. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2018	**2017**
Balance at January 1	$ (512)	$ (359)
Recognized for the year		
Exchange differences on translating the financial statements of foreign operations	(121)	(153)
Balance at December 31	$ (633)	$ (512)

2) Unrealized gain (loss) on available-for-sale financial assets

Balance at January 1, 2017	$ 2
Recognized for the year	
Unrealized loss on revaluation of available-for-sale financial assets	(2)
Balance at December 31, 2017	$ -

3) Unrealized gain (loss) on financial assets at FVTOCI

	For the Year Ended December 31, 2018
Balance at January 1 per IAS 39	$ -
Adjustment on initial application of IFRS 9	79
Balance at January 1 per IFRS 9	79
Recognized for the year	
Unrealized gain (loss) - equity instruments	187
Balance at December 31	$ 266

4) Gain (loss) on hedging instruments - cash flow hedges

	For the Year Ended December 31	
	2018	**2017**
Balance at January 1	$ (1)	$ 9
Recognized for the year		
Gain (loss) on changes in the fair value of hedging instruments		
Foreign currency risk - foreign exchange forward contracts	1	(10)
Balance at December 31	$ -	$ (1)

28. REVENUE

	For the Year Ended December 31	
	2018	2017
Revenue from contracts with customers		
Revenue from sale of goods		
Transformers	$ 109,788	$ 120,144
Distribution panels	33,779	30,514
Distribution equipment	4,734	8,697
Sale of power	403	375
Others	26,694	24,639
Construction contracts	19,834	12,865
	$ 195,232	$ 197,234

a. Contract balances

	December 31, 2018
Notes receivable	$ 989
Trade receivables (Note 13)	$ 68,441
Contract assets	
Retentions receivable	$ 4,680
Amounts due from customers for construction contracts	14,439
Onerous contracts (Note 24)	320
	$ 19,439
Contract liabilities	
Retentions payable	$ 7,574
Amounts due to customers for construction contracts	-
Advance receipts	10,091
	$ 17,665

The Group applies the same risk characteristics as the trade receivables for the same types of contracts. Refer to Note 13 for the details.

b. Disaggregation of revenue

Refer to Note 40 for information about the disaggregation of revenue.

29. NET PROFIT

a. Other gains and losses

	December 31	
	2018	2017
Ineffective portion of hedges		
Cash flow hedges	$ 146	$ (19)
Net foreign exchange (losses) gains	(391)	117
Gain (loss) on disposal of property, plant and equipment	80	(4)
Net gain on disposal of available-for-sale financial assets	-	985
Others	475	135
	$ 310	$ 1,214

b. Other income

	For the Year Ended December 31	
	2018	2017
Export tax rebate income	$ 650	$ 410
Interest income		
Bank deposits	17	29
Others	17	21
Rental income		
Operating lease rental income	2	49
Claims income	1,735	15
	$ 2,421	$ 524

c. Depreciation, amortization and employee benefits expense

	2018			2017		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Employee benefit expenses						
Salary	$ 10,851	$ 6,817	$ 17,668	$ 11,025	$ 7,588	$ 18,613
Labor insurance	963	576	1,539	1,003	577	1,580
Retirement expenses						
Defined contribution plans	467	265	732	481	263	744
Defined benefit plans	175	99	274	197	113	310
Remuneration of directors	-	440	440	-	114	114
	$ 12,456	$ 8,197	$ 20,653	$ 12,706	$ 8,655	$ 21,361
Depreciation expense	$ 2,450	$ 290	$ 2,740	$ 2,436	$ 341	$ 2,777
Amortization expense	$ 41	$ 167	$ 208	$ 84	$ 182	$ 266

d. Employees' compensation and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors at rates of no less than 3% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and the remuneration of directors for the years ended December 31, 2018 and 2017 which have been approved by the Company's board of directors on March 22, 2019 and March 23, 2018, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2018	**2017**
Employees' compensation	7.71%	6.65%
Remuneration of directors	1.40%	1.51%

Amount

	For the Year Ended December 31	
	2018	**2017**
	Cash	**Cash**
Employees' compensation	$ 225	$ 310
Remuneration of directors	41	71

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, 2017 and 2016.

Information on the employees' compensation and remuneration of directors resolved by the Company's board of directors in 2019 and 2018 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	
	2018	**2017**
Foreign exchange gain	$ 925	$ 724
Foreign exchange loss	(1,316)	(607)
Net (loss) gain	$ (391)	$ 117

30. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of income tax expense were as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current period	$ 173	$ 695
Income tax on unappropriated earnings	-	73
Adjustments for prior periods	180	(75)
	353	693
Deferred tax		
In respect of the current year	388	417
Adjustments for prior periods	(158)	56
Adjustments to deferred tax attributable to changes in tax rates and laws	134	-
	364	473
Income tax expense recognized in profit or loss	$ 717	$ 1,166

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

	For the Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	$ 2,449	$ 4,233
Income tax expense calculated at the statutory rate	$ 484	$ 715
Nondeductible expenses in determining taxable income	147	749
Tax-exempt income	-	(222)
Income tax on unappropriated earnings	-	73
Deductible investment credits of current period	(70)	(130)
Effect of tax rate changes	134	-
Adjustments to prior years' tax	22	(19)
Income tax expense recognized in profit or loss	$ 717	$ 1,166

In 2017, the applicable corporate income tax rate used by the group entities in the ROC was 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. 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.

As the status of the 2019 appropriations of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Effect of change in tax rate	$ 89	$ -
In respect of the current period		
Remeasurement of defined benefit plans	70	128
Total income tax recognized in other comprehensive income	$ 159	$ 128

c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	$ 303	$ 18
Current tax liabilities		
Income tax payable	$ 4	$ 1

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Effect of Change in Tax Rate	Closing Balance
Deferred tax assets						
Defined benefit plans	$ 1,391	$ (205)	$ 70	$ (43)	$ 238	$ 1,451
Provisions over limit	7	(8)	-	-	1	-
Inventory write-downs	124	33	-	(8)	2	151
Allowance for impaired receivables	44	4	-	(2)	-	46
Deferred revenue	-	158	-	-	-	158
Unrealized exchange loss	-	36	-	-	-	36
Others	266	(237)	-	(9)	44	64
	$ 1,832	$ (219)	$ 70	$ (62)	$ 285	$ 1,906
Deferred tax liabilities						
Land value increment tax	$ 1,160	$ -	$ -	$ (35)	$ 198	$ 1,323
Share of profit of subsidiaries	764	(49)	-	(25)	131	821
Unrealized exchange gains	5	(6)	-	-	1	-
Deferred revenue	1	(1)	-	-	-	-
Others	-	63	-	(2)	-	61
	$ 1,930	$ 7	$ -	$ (62)	$ 330	$ 2,205

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

e. Income tax assessments

The Company’s tax returns through 2016 have been assessed by the tax authorities.

31. EARNINGS PER SHARE

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

Net Profit for the Year

	For the Year Ended December 31	
	2018	2017
Profit for the period attributable to owners of the Company	$ 1,956	$ 3,117

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

	For the Year Ended December 31	
	2018	**2017**
Weighted average number of ordinary shares used in the computation of basic earnings per share	261,059	261,059
Effect of potentially dilutive ordinary shares:		
Employees' compensation	472	712
Weighted average number of ordinary shares used in the computation of diluted earnings per share	261,531	261,771

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.

32. CASH FLOW INFORMATION

a. Non-cash transactions

In January 2018, the Group converted the receivables of ProMOSTech Co., Ltd. into its ordinary shares in a debt for equity swap, with a shareholding ratio of 0.12% after the swap.

b. Changes in liabilities arising from financing activities

For the year ended December 31, 2018

			Non-cash Changes	
	Opening Balance	**Cash Flows**	**Changes in Foreign currency Exchange**	**Closing Balance**
Short-term borrowings	$ 29,142	$ (16,509)	$ (876)	$ 11,757

For the year ended December 31, 2017

			Non-cash Changes	
	Opening Balance	**Cash Flows**	**Changes in Foreign currency Exchange**	**Closing Balance**
Short-term borrowings	$ 12,750	$ 16,274	$ 118	$ 29,142

33. 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.

34. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments 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, 2018 and 2017 approximate their fair values.

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

Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivatives	$ -	$ 142	$ -	$ 142
Financial assets at FVTOCI				
Investments in equity instruments at FVTOCI				
Unlisted shares	$ -	$ 1,423	$ -	$ 1,423
Financial liabilities at FVTPL				
Derivatives	$ -	$ (4)	$ -	$ (4)

December 31, 2017

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

(Continued)

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

(Concluded)

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 receivables, 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 38.

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 the New Taiwan dollar (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	
	2018	**2017**
Profit or loss (Note)	$ 21	$ 101

Note: This was mainly attributable to the exposure outstanding on bank balances, receivables, payables and borrowings in USD, 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 amounts 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	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 41	$ 217
Financial liabilities	6,373	13,277
Cash flow interest rate risk		
Financial assets	3,117	3,592
Financial liabilities	29,535	40,791

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 liabilities 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, 2018 and 2017 would increase/decrease by $264 thousand and $372 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 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 year ended December 31, 2018 would have increased by $14 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that a 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, 2018 and 2017, the Group had available unutilized overdraft and bank loan facilities of approximately $164,209 thousand and $173,606 thousand, respectively.

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

The following table details the Group's remaining contractual maturities 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, 2018

	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 liabilities		$ 2,123	$ 56,047	$ 12,688	$ 1,010
Variable interest rate liabilities	1.82	587	-	4,863	24,277
Fixed interest rate liabilities	2.50	1,250	1,977	3,218	-
		$ 3,960	$ 58,024	$ 20,769	$ 25,287

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 liabilities		$ 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

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, 2018 and 2017, the aggregate undiscounted principal amounts of these bank loans amounted to $1,931 thousand and $20,179 thousand, respectively.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities were 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 details 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, 2018

	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years
Net settled				
Foreign exchange forward contracts	$ 61	$ 51	$ 26	$ -

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)	$ -

35. 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	Relationship With The Group
Hitachi Fortune Transformer, Inc.	Associates
Hua Cheng Investment Co., Ltd.	Others

b. Trading transactions

Line Item	Related Party Category/Name	For the Year Ended December 31 2018	2017
Sales	Associates	$ 181	$ 269
Cost of goods sold - manufacturing expense	Others	$ 1	$ 1
Operating expense	Others	$ 4	$ 4

(Continued)

Line Item	Related Party Category/Name	For the Year Ended December 31 2018	2017
Other income - rental income	Associates		
	Hitachi Fortune Transformer, Inc.	$ -	$ 47
	Others		
	Hua Cheng Investment Co., Ltd.	2	2
		$ 2	$ 49

(Concluded)

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.

c. Purchase of goods

Related Party Category/Name	For the Year Ended December 31 2018	2017
Associates	$ 1,541	$ 517

The purchase price and payment terms are the same as those of unrelated parties.

d. Receivables from related parties (excluding loans to related parties and contract assets)

Line Items	Related Party Category/Name	December 31 2018	2017
Accounts receivable	Associates		
	Hitachi Fortune Transformer, Inc.	$ -	$ 70

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2018 and 2017, no impairment loss was recognized on trade receivables from related parties.

e. Payables to related parties (excluding loans from related parties)

Line Items	Related Party Category/Name	December 31 2018	2017
Accounts payable	Associates		
	Hitachi Fortune Transformer, Inc.	$ 1,053	$ -

The outstanding trade payables from related parties are unsecured.

f. 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 dates were as follows:

Related Party Category/Name	December 31 2018	2017
Subsidiaries		
Fortune Electric (Wuhan) Co., Ltd.	$ 13,000	$ 13,000

g. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 1,338	$ 1,198
Termination benefits	61	45
	$ 1,399	$ 1,243

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

36. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2018	2017
Refundable deposits (current portion is included in other current assets)	$ 173	$ 80
Pledged deposits (classified as financial assets at amortized cost)	41	-
Pledged deposits (classified as debt investments with no active market)	-	217
Property, plant and equipment	32,257	33,673
Prepayments for leases	755	818
	$ 33,226	$ 34,788

37. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Group as of December 31, 2018 were as follows:

a. As of December 31, 2018, unused letters of credit for purchases of raw materials and machinery and equipment amounted to $2,410 thousand, ￥13,450 thousand, €228 thousand and Kč33 thousand.

b. As of December 31, 2018, promissory note of $54,395 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 $29 thousand and $30 thousand for the years ended December 31, 2018 and 2017, 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 $30 thousand and $31 thousand for the years ended December 31, 2018 and 2017, 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, technical remuneration paid was $11 thousand, 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, 2018 and 2017 was $403 thousand and $375 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.

38. 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, 2018

	Foreign Currency	Exchange Rate	Carrying Amount (NTD)
Financial assets			
Monetary items			
USD	$ 5,546	30.7150 (USD:NTD)	$ 170,345
USD	3,058	6.8683 (USD:CNY)	93,926
			$ 264,271
Financial liabilities			
Monetary items			
USD	6,075	30.7150 (USD:NTD)	$ 186,594
USD	380	6.8683 (USD:CNY)	11,672
			$ 198,266

December 31, 2017

	Foreign Currency	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

The Group is mainly exposed to the 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			
	2018		2017	
Foreign Currency	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
NTD	1 (NTD:NTD)	$ (257)	1 (NTD:NTD)	$ 27
RMB	4.5600 (RMB:NTD)	(134)	4.5451 (RMB:NTD)	90
		$ (391)		$ 117

39. 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 or 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. (None)

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 5)

11) Information on investees. (Table 3)

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, 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 4)

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, 3-5)

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.

40. 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	
	2018	2017	2018	2017
Electrical department	$ 175,398	$ 184,369	$ 14,966	$ 16,586
Construction department	19,834	12,865	(10,389)	(7,444)
Segment revenues	$ 195,232	$ 197,234	4,577	9,142
Government grant			661	379
Other income			2,421	524
Share of the loss of associate			(400)	(2,325)
Other gains and losses			310	1,214
Finance costs			(971)	(827)
General and administrative expense			(4,149)	(3,874)
Profit before tax			$ 2,449	$ 4,233

Segment revenues reported above represent revenues generated from external customers. There were no inter-segment sales during the years ended December 31, 2018 and 2017.

Segment profit represented the profit before tax earned by each segment without allocation of other income, share of the loss of associates, other gains and losses, finance 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 was 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	
	2018	2017
Electrical department	$ 2,948	$ 3,043
Construction department	-	-
	$ 2,948	$ 3,043

d. Revenue from major products and services

For the analysis of the Group’s revenue from continuing operations from its major products and services, refer to Note 28.

e. Information about major customers

Included in the total revenues of electrical and turnkey departments of $195,232 thousand and $197,234 thousand in 2018 and 2017, respectively, are revenues of $44,976 thousand and $51,709 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 2018 and 2017.

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(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	$ 49,936	$ 13,000	$ 13,000	$ 4,773 ¥ 8,928	$ -	13.02%	$ 59,923	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: $99,873 x 50% = $49,936

Note 2: The maximum limit is equal to 60% of the Company’s net equity: $99,873 x 60% = $59,923

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(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, 2018				Note
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Fortune Electric Co., Ltd.	Stock							
	Raynergy Tek Incorporation	-	Financial assets at fair value through other comprehensive income	3,031	$ 1,423	10.80	$ 1,423	
	ProMOSTech Co., Ltd.	-	Financial assets at fair value through other comprehensive income	26	-	0.06	-	

Note: The information of investments in subsidiaries and associates is provided in Tables 3 and 4.

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018			Net Income (Loss) of the Investee	Share of Profits (Loss) (Note 1)	Note
				December 31, 2018	December 31, 2017	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	$ 4,119	$ 4,252	3,800	100.00	$ 7,636	$ (322)	$ (322)	Investee is a subsidiary
	Fortune Electric America Inc.	23133 Hawthorne Blvd. Suite 200 Torrance, CA 90505	Agents business	96	99	1	100.00	371	67	67	Investee is a subsidiary
	Hitachi Fortune Transformer, Inc.	No. 500, Nanheng 1st Rd, Wuqi District, Taichung City 435, Taiwan	Transformers manufacturing, machining and trading	18,388	18,978	56,480	40.00	10,152	(1,021)	(408)	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	45	47	100	25.00	44	32	8	Associates
Power Energy International Ltd.	Fortune Electric (Wuhan) Ltd.	Wuhan, China	Transformers, capacitors, power distribution equipment manufacturing	6,500	6,500	-	100.00	7,636	(335)	(335)	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 (1,471) thousand	RMB (3,664) thousand	RMB (2,198) thousand	Investee is a subsidiary
	Wuhan Fortune Trade Co., Ltd.	Wuhan, China	Trade business	RMB 500 thousand	RMB 500 thousand	-	100.00	RMB 1,899 thousand	RMB 788 thousand	RMB 788 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, 2018
(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, 2018 (Note 3)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018 (Note 3)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018	Note
					Outward	Inward							
Fortune Electric (Wuhan) Ltd.	Transformers, capacitors, power distribution equipment manufacturing	$ 6,500	Indirect	$ 6,000	$ -	$ -	$ 6,000	$ (335)	100.00	$ (335)	$ 7,636	$ -	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$6,000	$6,000	$59,923

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, 2018 to December 31, 2018; the other accounts were all based on prevailing exchange rate as of December 31, 2018.

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, 2018
(In Thousands of U.S. Dollars, Unless Stated Otherwise)

No	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			
				Financial Statement Account	Amount	Transaction Terms	% to Total Sales or Assets
0	Fortune Electric Co., Ltd.	Fortune Electric (Wuhan) Co., Ltd.	a	Purchases	$ 422	With non-related parties	0.22
		Fortune Electric (Wuhan) Co., Ltd.	a	Accounts receivable	263	With non-related parties	0.12
		Fortune Electric (Wuhan) Co., Ltd.	a	Sales	9	With non-related parties	-
		Fortune Electric America Inc.	a	Operating expenses	1,305	Under arm's length terms	0.67
		Fortune Electric America Inc.	a	Accounts payables	137	With non-related parties	0.06
		Wuhan Huarong Co., Ltd.	a	Purchases	119	With non-related parties	0.06
		Wuhan Huarong Co., Ltd.	a	Other receivables	9	With non-related parties	-
		Wuhan Huarong Co., Ltd.	a	Accounts payable	57	With non-related parties	0.03
		Wuhan Fortune Trade Co., Ltd.	a	Purchases	869	With non-related parties	0.45
		Wuhan Fortune Trade Co., Ltd.	a	Accounts receivables	23	With non-related parties	0.01
		Wuhan Fortune Trade Co., Ltd.	a	Accounts payables	20	With non-related parties	0.01
1	Fortune Electric (Wuhan) Co., Ltd.	Wuhan Huarong Co., Ltd.	c	Purchases	795	With non-related parties	0.41
		Wuhan Huarong Co., Ltd.	c	Accounts payables	135	With non-related parties	0.06
		Wuhan Huarong Co., Ltd.	c	Rental income	126	Under arm's length terms	0.06
		Wuhan Huarong Co., Ltd.	c	Other receivables	121	With non-related parties	0.05
		Wuhan Fortune Trade Co., Ltd.	c	Sales	73	With non-related parties	0.04
		Wuhan Fortune Trade Co., Ltd.	c	Accounts receivables	14	With non-related parties	0.01
2	Wuhan Huarong Co., Ltd.	Wuhan Fortune Trade Co., Ltd.	c	Sales	3	With non-related parties	-

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

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

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