Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2019 and 2018

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

	March 31, 2019 (Reviewed)		December 31, 2018 (Audited)	March 31, 2018 (Reviewed)
ASSETS	**NT$**	**US$ (Note)**	**NT$**	**NT$**
CURRENT ASSETS				
Cash	$ 332,405	$ 10,785	$ 97,983	$ 98,417
Financial assets at fair value through profit or loss	2,730	89	4,364	684
Financial assets at amortized cost - current	-	-	-	5,165
Contract assets	437,612	14,199	597,067	516,733
Notes receivable	32,177	1,044	30,382	33,763
Trade receivables from unrelated parties	2,477,538	80,387	2,102,158	2,398,460
Current tax assets	9,291	301	9,310	527
Inventories, net	2,123,024	68,885	2,004,575	1,693,185
Prepayments	76,504	2,482	72,246	166,316
Non-current assets held for sale	8,608	279	-	-
Other current assets	199,154	6,463	121,082	65,457
Total current assets	5,699,043	184,914	5,039,167	4,978,707
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income	43,707	1,418	43,707	15,552
Financial assets at amortized cost - non-current	1,272	41	1,272	1,272
Investments accounted for using equity method	1,307	42	313,162	328,041
Property, plant and equipment	2,098,733	68,097	1,317,950	1,359,656
Right-of-use assets	108,840	3,532	-	-
Intangible assets	25,749	835	20,716	9,335
Deferred tax assets	50,511	1,639	58,529	79,669
Prepayments for equipment	3,248	105	5,680	8,271
Refundable deposits	4,543	148	4,166	4,110
Long-term prepayment for lease	-	-	22,509	23,919
Total non-current assets	2,337,910	75,857	1,787,691	1,829,825
TOTAL	$ 8,036,953	$ 260,771	$ 6,826,858	$ 6,808,532
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	$ 1,447,736	$ 46,974	$ 361,114	$ 564,520
Financial liabilities at fair value through profit or loss	268	9	107	5
Contract liabilities	558,406	18,118	542,592	545,867
Trade payables to unrelated parties	1,414,428	45,893	1,587,175	1,348,983
Trade payables to related parties	-	-	32,340	10,268
Other payables	157,576	5,113	148,080	151,923
Current tax liabilities	32,042	1,040	131	62
Provisions	8,233	267	9,834	67,492
Liabilities directly associated with non-current assets held for sale	16,890	548	-	-
Lease liabilities - current	8,679	282	-	-
Other current liabilities	60,727	1,970	34,854	42,664
Total current liabilities	3,704,985	120,214	2,716,227	2,731,784
NON-CURRENT LIABILITIES				
Long-term borrowings	741,800	24,069	741,800	741,800
Deferred tax liabilities	107,211	3,479	67,728	67,163
Lease liabilities - non-current	75,900	2,462	-	-
Net defined benefit liabilities	188,368	6,112	222,775	220,949
Guarantee deposit received	4,252	138	15,132	13,450
Total non-current liabilities	1,117,531	36,260	1,047,435	1,043,362
Total liabilities	4,822,516	156,474	3,763,662	3,775,146
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	2,610,585	84,704	2,610,585	2,610,585
Capital surplus	1,251	41	1,251	1,179
Retained earnings				
Legal reserve	354,326	11,497	354,326	345,050
Special reserve	15,251	495	15,251	11,231
Unappropriated earnings	242,877	7,880	97,442	95,234
Total retained earnings	612,454	19,872	467,019	451,515
Other equity				
Exchange differences on translating foreign operations	(13,781)	(447)	(19,448)	(10,940)
Unrealized gain or loss on financial assets at fair value through other comprehensive income	8,175	265	8,175	(19,981)
Total other equity	(5,606)	(182)	(11,273)	(30,921)
Total equity attributable to owners of the Company	3,218,684	104,435	3,067,582	3,032,358
NON-CONTROLLING INTERESTS	(4,247)	(138)	(4,386)	1,028
Total equity	3,214,437	104,297	3,063,196	3,033,386
TOTAL	$ 8,036,953	$ 260,771	$ 6,826,858	$ 6,808,532

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$30.82 to US$1.00 at March 31, 2019, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

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

(With Deloitte & Touche review report dated May 8, 2019)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31		
	2019		2018
	NT$	US$ (Note)	NT$
OPERATING REVENUE			
Sales	$ 1,180,816	$ 38,313	$ 1,166,997
Construction revenue	51,011	1,655	80,611
Total operating revenue	1,231,827	39,968	1,247,608
OPERATING COSTS			
Cost of goods sold	930,542	30,193	981,401
Construction cost	66,273	2,150	207,301
Total operating costs	996,815	32,343	1,188,702
GROSS PROFIT	235,012	7,625	58,906
OPERATING EXPENSES			
Selling and marketing expenses	113,786	3,692	89,154
General and administrative expenses	39,174	1,271	28,390
Research and development expenses	24,267	787	21,849
Total operating expenses	177,227	5,750	139,393
PROFIT (LOSS) FROM OPERATIONS	57,785	1,875	(80,487)
NON-OPERATING INCOME AND EXPENSES			
Other income	129,591	4,205	11,749
Gain from bargain purchase - acquisition of subsidiaries	209,682	6,803	-
Other gains and losses	(133,799)	(4,341)	(761)
Share of profit or loss of associates	(29,401)	(954)	2,602
Finance costs	(7,175)	(233)	(7,774)
Total non-operating income and expenses	168,898	5,480	5,816
PROFIT (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	226,683	7,355	(74,671)
INCOME TAX EXPENSE (BENEFIT)	79,676	2,585	(12,536)
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	147,007	4,770	(62,135)

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31		
	2019		2018
	NT$	US$ (Note)	NT$
NET LOSS FROM DISCONTINUED OPERATIONS	$ (1,328)	$ (43)	$ (6,626)
NET PROFIT (LOSS) FOR THE PERIOD	145,679	4,727	(68,761)
OTHER COMPREHENSIVE INCOME AND LOSS			
Items that may be not be reclassified subsequently to profit or loss:			
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	-	-	(22,406)
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	2,744
	-	-	(19,662)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	5,561	180	4,277
Share of the other comprehensive income of associates accounted for using the equity method	1	-	39
Cash flow hedges	-	-	17
	5,562	180	4,333
Total other comprehensive income and loss	5,562	180	(15,329)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ 151,241	$ 4,907	$ (84,090)
NET PROFIT (LOSS) ATTRIBUTABLE TO:			
Owners of the Company	$ 145,435	$ 4,719	$ (68,426)
Non-controlling interests	244	8	(335)
	$ 145,679	$ 4,727	$ (68,761)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the Company	$ 151,102	$ 4,903	$ (83,777)
Non-controlling interests	139	4	(313)
	$ 151,241	$ 4,907	$ (84,090)

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31		
	2019		2018
	NT$	US$ (Note)	NT$
EARNINGS (LOSS) PER SHARE			
From continuing and discontinued operations			
Basic	$ 0.56	$ 0.02	$ (0.26)
Diluted	$ 0.56	$ 0.02	$ (0.26)
From continuing operations			
Basic	$ 0.56	$ 0.02	$ (0.24)
Diluted	$ 0.56	$ 0.02	$ (0.24)

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$30.82 to US$1.00 at March 31, 2019, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

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

(With Deloitte & Touche review report dated May 8, 2019) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In Thousands)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company												
			Retained Earnings				Other Equity						
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Total	Controlling Interests	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2018	$ 2,610,585	$ 1,179	$ 345,050	$ 11,231	$ 160,916	$ 517,197	$ (15,234)	$ -	$ (17)	$ (15,251)	$ 3,113,710	$ 1,341	$ 3,115,051
Effect of retrospective application	-	-	-	-	-	-	-	2,425	-	2,425	2,425	-	2,425
BALANCE AT JANUARY 1, 2018 AS RESTATED	2,610,585	1,179	345,050	11,231	160,916	517,197	(15,234)	2,425	(17)	(12,826)	3,116,135	1,341	3,117,476
Net loss for the three months ended March 31, 2018	-	-	-	-	(68,426)	(68,426)	-	-	-	-	(68,426)	(335)	(68,761)
Other comprehensive income (loss) for the three months ended March 31, 2018, net of income tax	-	-	-	-	2,744	2,744	4,294	(22,406)	17	(18,095)	(15,351)	22	(15,329)
Total comprehensive income (loss) for the three months ended March 31, 2018	-	-	-	-	(65,682)	(65,682)	4,294	(22,406)	17	(18,095)	(83,777)	(313)	(84,090)
BALANCE AT MARCH 31, 2018	$ 2,610,585	$ 1,179	$ 345,050	$ 11,231	$ 95,234	$ 451,515	$ (10,940)	$ (19,981)	$ -	$ (30,921)	$ 3,032,358	$ 1,028	$ 3,033,386
BALANCE AT JANUARY 1, 2019	$ 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
Net income for the three months ended March 31, 2019	-	-	-	-	145,435	145,435	-	-	-	-	145,435	244	145,679
Other comprehensive income (loss) for the three months ended March 31, 2019, net of income tax	-	-	-	-	-	-	5,667	-	-	5,667	5,667	(105)	5,562
Total comprehensive income (loss) for the three months ended March 31, 2019	-	-	-	-	145,435	145,435	5,667	-	-	5,667	151,102	139	151,241
BALANCE AT MARCH 31, 2019	$ 2,610,585	$ 1,251	$ 354,326	$ 15,251	$ 242,877	$ 612,454	$ (13,781)	$ 8,175	$ -	$ (5,606)	$ 3,218,684	$ (4,247)	$ 3,214,437
BALANCE AT MARCH 31, 2019 (IN U.S. DOLLARS)	$ 84,704	$ 41	$ 11,497	$ 495	$ 7,880	$ 19,872	$ (447)	$ 265	$ -	$ (182)	$ 104,435	$ (138)	$ 104,297

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$30.82 to US$1.00 at March 31, 2019, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

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

(With Deloitte & Touche review report dated May 8, 2019)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31		
	2019		2018
	NT$	US$ (Note)	NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax from continuing operations	$ 226,683	$ 7,355	$ (74,671)
Loss before income tax from discontinued operations	(1,296)	(42)	(6,626)
Income (loss) before income tax	225,387	7,313	(81,297)
Adjustments for:			
Depreciation expenses	20,594	668	20,816
Amortization expenses	2,094	68	1,685
Expected credit loss reversed on trade receivables	(1,216)	(40)	(3,006)
Net gain on financial instruments at fair value through profit or loss	(2,462)	(80)	(679)
Finance costs	7,176	233	7,777
Interest income	(187)	(6)	(112)
Share of loss (profit) of associates	29,401	954	(2,602)
Loss on disposal of property, plant and equipment	31	1	5
Loss on disposal of associates	142,666	4,629	-
Reversal of write-downs of inventories	(994)	(32)	(327)
Unrealized net loss on foreign currency exchange	3,663	119	2,717
Gain from bargain purchase	(209,682)	(6,803)	-
Prepayment for lease	174	6	177
Changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	4,257	138	(185)
Notes receivable	(1,795)	(58)	48,630
Contract assets	159,455	5,174	25,904
Trade receivables	(242,120)	(7,856)	240,051
Trade receivables from related parties	2,042	66	2,067
Inventories	(81,305)	(2,638)	88,482
Prepayments	2,366	77	(94,858)
Other current assets	(77,209)	(2,505)	(15,975)
Contract liabilities	15,473	502	251,563
Notes payable	-	-	(3,261)
Trade payables	(190,140)	(6,170)	(165,717)
Trade payables to related parties	(34,382)	(1,116)	10,268
Other payables	(13,751)	(446)	(35,291)
Provisions	(1,601)	(52)	23,097
Other current liabilities	34,433	1,117	4,449
Net defined benefit liabilities	(34,407)	(1,116)	(23,793)
Cash (used in) generated from operations	(242,039)	(7,853)	300,585
Interest received	187	6	112
Interest paid	(6,761)	(219)	(8,603)
Income tax (paid) received	(115)	(4)	14
Net cash generated from (used in) operating activities	(248,728)	(8,070)	292,108

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended March 31		
	2019		2018
	NT$	US$ (Note)	NT$
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash inflow on acquisition of subsidiaries	$ 167,758	$ 5,443	$ -
Payments for property, plant and equipment	(9,810)	(318)	(12,089)
Decrease (increase) in refundable deposits	2,077	67	(45)
Payments for intangible assets	(3,297)	(107)	(1,285)
Increase in prepayments	(1,182)	(39)	-
Net cash generated from (used in) investing activities	155,546	5,046	(13,419)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments of) short-term borrowings	333,623	10,825	(305,125)
(Refund of) proceeds from guarantee deposits received	(10,880)	(353)	10,133
Repayment of the principal portion of lease liabilities	(898)	(29)	-
Net cash generated from (used in) financing activities	321,845	10,443	(294,992)
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	7,231	235	4,070
NET INCREASE (DECREASE) IN CASH	235,894	7,654	(12,233)
CASH AT THE BEGINNING OF THE PERIOD	97,983	3,179	110,650
CASH AT THE END OF THE PERIOD	$ 333,877	$ 10,833	$ 98,417

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	March 31		
	2019		2018
	NT$	US$ (Note)	NT$
Cash in the consolidated balance sheets	$ 332,405	$ 10,785	$ 98,417
Cash included in disposal group held for sale	1,472	48	-
Cash in the consolidated statements of cash flows	$ 333,877	$ 10,833	$ 98,417

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$30.82 to US$1.00 at March 31, 2019, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

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

(With Deloitte & Touche review report dated May 8, 2019) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In Thousands of U.S. Dollars)
(Reviewed, Not Audited)

1. GENERAL INFORMATION

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

The Company's shares have been listed on the Taiwan Stock Exchange ("TSE") since April 1997.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on May 8, 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 by the FSC

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

1) IFRS 16 "Leases"

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects 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 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents 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 are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights in China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.26%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

	NT$
The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	$ 6,466
Undiscounted amounts on January 1, 2019	$ 6,466
Discounted amounts using the incremental borrowing rate on January 1, 2019	$ 6,118
Lease liabilities recognized on January 1, 2019	$ 6,118

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019 (NT$)	**Adjustments Arising from Initial Application (NT$)**	**Restated on January 1, 2019 (NT$)**
Prepayments for leases - current (included in other current assets)	$ 680	$ (680)	$ -
Prepayments for leases - non-current	22,509	(22,509)	-
Right-of-use assets	-	29,307	29,307
Total effect on assets	$ 23,189	$ 6,118	$ 29,307
Lease liabilities - current	$ -	$ 3,380	$ 3,380
Lease liabilities - non-current	-	2,738	2,738
Total effect on liabilities	$ -	$ 6,118	$ 6,118

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 has 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 applied the above amendments prospectively.

b. 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 above standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

a. Statement of compliance

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

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

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 dates of acquisitions up to the effective dates of disposals, 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.

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

Subsidiaries included in consolidated financial statements:

Investor	Investee	Main Business	% of Ownership March 31, 2019	% of Ownership December 31, 2018	% of Ownership March 31, 2018	Remark
Fortune Electric Co., Ltd.	Power Energy International Ltd.	Investment Holding	100	100	100	
	Fortune Electric America Inc.	Agents business	100	100	100	
	Hitachi Fortune Transformer, Inc.	Transformers manufacturing, machining and trading	100	40	40	1)
Power Energy International Ltd.	Fortune Electric (Wuhan) Ltd.	Transformers, capacitors, power distribution equipment manufacturing	100	100	100	
Fortune Electric (Wuhan) Ltd.	Wuhan Huarong Co., Ltd.	Production and sale of transformer tank, machining, mechanical and electrical products, metal surface corrosion treatment	60	60	60	2)
	Wuhan Fortune Trade Co., Ltd.	Trade business	100	100	100	

1) The Company originally owned 40% shares of Hitachi Fortune Transformer, Inc. On March 28, 2019, the board of directors signed the joint venture termination agreement with Hitachi, Ltd. , which transferred their total 84,720 thousand shares of Hitachi Fortune Transformer, Inc. to the Company without compensation on March 31, 2019.

2) On March 22, 2019, Wuhan Huarong Co., Ltd has been decided to close down by the board of directors of the Company. The work of business closing is in the progress of 80%.

3) Subsidiaries included in consolidated financial statements, January 1 to March 31, 2019 and 2018 were based on the same period of unreviewed financial statements.

d. Other significant accounting policies

For the summary of other significant accounting policies, except for the following, please refer to the consolidated financial statements for the year ended December 31, 2018.

1) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer’s previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred and the fair value of the acquirer’s previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

2) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, and the sale should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

When a subsidiary previously classified as held for sale no longer meets the criteria to be classified as such, it is measured at the carrying amount that would have been recognized had such interests not been classified as held for sale. The consolidated financial statements for the periods since classification as held for sale are amended accordingly.

3) Leases

<u>2019</u>

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

a) The Group as lessor

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

Lease payments from operating leases are recognized as income on a straight-line basis. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

b) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee’s incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in the amounts expected to be payable under a residual value guarantee resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

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

a) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b) The Group as lessee

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

4) Retirement benefits

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

5) Taxation

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2018.