

Fortune Electric Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2020 and 2019**

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands)

ASSETS	March 31, 2020 (Reviewed)		December 31, 2019	March 31, 2019
	NT\$	US\$ (Note)	(Audited) NT\$	(Reviewed) NT\$
CURRENT ASSETS				
Cash	\$ 116,085	\$ 3,841	\$ 147,896	\$ 332,405
Financial assets at fair value through profit or loss	-	-	68	2,730
Financial assets at amortized cost - current	3,044	101	4,459	-
Contract assets	652,435	21,586	536,077	437,612
Notes receivable	23,186	767	85,591	32,177
Trade receivables from unrelated parties	2,623,402	86,796	2,702,852	2,477,538
Current tax assets	8,567	283	8,567	9,291
Inventories, net	2,774,687	91,801	2,499,361	2,123,024
Prepayments	125,576	4,154	172,238	76,504
Non-current assets held for sale	-	-	-	8,608
Other current assets	48,664	1,610	79,752	199,154
Total current assets	<u>6,375,646</u>	<u>210,939</u>	<u>6,236,861</u>	<u>5,699,043</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income	54,982	1,819	54,982	43,707
Financial assets at amortized cost - non-current	3,859	128	1,272	1,272
Investments accounted for using the equity method	989	33	1,153	1,307
Property, plant and equipment	2,037,970	67,426	2,049,431	2,098,733
Right-of-use assets	147,860	4,892	150,722	108,840
Intangible assets	26,468	876	28,528	25,749
Deferred tax assets	50,239	1,662	55,749	50,511
Prepayments for equipment	5,185	172	4,108	3,248
Refundable deposits	4,356	144	3,825	4,543
Total non-current assets	<u>2,331,908</u>	<u>77,152</u>	<u>2,349,770</u>	<u>2,337,910</u>
TOTAL	<u>\$ 8,707,554</u>	<u>\$ 288,091</u>	<u>\$ 8,586,631</u>	<u>\$ 8,036,953</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	\$ 492,519	\$ 16,295	\$ 253,312	\$ 1,447,736
Short-term bills payable	199,692	6,607	199,447	-
Financial liabilities at fair value through profit or loss	1,524	50	1,401	268
Derivative financial liabilities for hedging	81	3	674	-
Contract liabilities	1,145,258	37,891	940,926	558,406
Trade payables to unrelated parties	2,034,355	67,307	2,181,134	1,414,428
Trade payables to related parties	15	1	12	-
Other payables	442,016	14,624	327,425	157,576
Current tax liabilities	75,305	2,491	76,050	32,042
Provisions	6,348	210	6,178	8,233
Liabilities directly associated with non-current assets held for sale	-	-	-	16,890
Lease liabilities - current	9,889	327	10,127	8,679
Other current liabilities	92,657	3,066	72,950	60,727
Total current liabilities	<u>4,499,659</u>	<u>148,872</u>	<u>4,069,636</u>	<u>3,704,985</u>
NON-CURRENT LIABILITIES				
Long-term borrowings	741,800	24,543	741,800	741,800
Deferred tax liabilities	62,476	2,067	64,606	107,211
Lease liabilities - non-current	117,281	3,880	119,361	75,900
Net defined benefit liabilities	161,277	5,336	208,070	188,368
Guarantee deposit received	4,833	160	4,253	4,252
Total non-current liabilities	<u>1,087,667</u>	<u>35,986</u>	<u>1,138,090</u>	<u>1,117,531</u>
Total liabilities	<u>5,587,326</u>	<u>184,858</u>	<u>5,207,726</u>	<u>4,822,516</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	<u>2,610,585</u>	<u>86,372</u>	<u>2,610,585</u>	<u>2,610,585</u>
Capital surplus	<u>1,251</u>	<u>41</u>	<u>1,251</u>	<u>1,251</u>
Retained earnings				
Legal reserve	360,334	11,922	360,334	354,326
Special reserve	11,273	373	11,273	15,251
Unappropriated earnings	147,395	4,876	404,437	242,877
Total retained earnings	<u>519,002</u>	<u>17,171</u>	<u>776,044</u>	<u>612,454</u>
Other equity				
Exchange differences on translating foreign operations	(29,979)	(992)	(27,751)	(13,781)
Unrealized gain or loss on financial assets at fair value through other comprehensive income	19,450	644	19,450	8,175
Cash flow hedges	(81)	(3)	(674)	-
Total other equity	<u>(10,610)</u>	<u>(351)</u>	<u>(8,975)</u>	<u>(5,606)</u>
Total equity attributable to owners of the Company	<u>3,120,228</u>	<u>103,233</u>	<u>3,378,905</u>	<u>3,218,684</u>
NON-CONTROLLING INTERESTS				
Total equity	<u>3,120,228</u>	<u>103,233</u>	<u>3,378,905</u>	<u>3,214,437</u>
TOTAL	<u>\$ 8,707,554</u>	<u>\$ 288,091</u>	<u>\$ 8,586,631</u>	<u>\$ 8,036,953</u>

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT\$30.225 to US\$1.00 at March 31, 2020, 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 11, 2020)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended March 31		
	2020		2019
	NT\$	US\$ (Note)	NT\$
OPERATING REVENUE			
Sales	\$ 1,442,643	\$ 47,730	\$ 1,180,816
Construction revenue	<u>234,069</u>	<u>7,744</u>	<u>51,011</u>
Total operating revenue	<u>1,676,712</u>	<u>55,474</u>	<u>1,231,827</u>
OPERATING COSTS			
Cost of goods sold	1,202,741	39,793	930,542
Construction cost	<u>217,706</u>	<u>7,203</u>	<u>66,273</u>
Total operating costs	<u>1,420,447</u>	<u>46,996</u>	<u>996,815</u>
GROSS PROFIT	<u>256,265</u>	<u>8,478</u>	<u>235,012</u>
OPERATING EXPENSES			
Selling and marketing expenses	178,442	5,904	113,786
General and administrative expenses	37,416	1,238	39,174
Research and development expenses	<u>35,261</u>	<u>1,166</u>	<u>24,267</u>
Total operating expenses	<u>251,119</u>	<u>8,308</u>	<u>177,227</u>
PROFIT FROM OPERATIONS	<u>5,146</u>	<u>170</u>	<u>57,785</u>
NON-OPERATING INCOME AND EXPENSES			
Other income	5,813	192	129,591
Gain from bargain purchase - acquisition of subsidiaries	-	-	209,682
Other gains and losses	2,582	85	(133,799)
Share of profit or loss of associates	(148)	(4)	(29,401)
Finance costs	<u>(6,010)</u>	<u>(199)</u>	<u>(7,175)</u>
Total non-operating income and expenses	<u>2,237</u>	<u>74</u>	<u>168,898</u>
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	7,383	244	226,683
INCOME TAX EXPENSE	<u>3,367</u>	<u>111</u>	<u>79,676</u>
NET PROFIT FROM CONTINUING OPERATIONS	<u>4,016</u>	<u>133</u>	<u>147,007</u>
NET LOSS FROM DISCONTINUED OPERATIONS	<u>-</u>	<u>-</u>	<u>(1,328)</u>
NET PROFIT FOR THE PERIOD	<u>4,016</u>	<u>133</u>	<u>145,679</u>

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands, Except Earnings Per Share)

(Reviewed, Not Audited)

	For the Three Months Ended March 31		
	2020		2019
	NT\$	US\$ (Note)	NT\$
OTHER COMPREHENSIVE INCOME AND LOSS			
Exchange differences on translating foreign operations	\$ (2,212)	\$ (73)	\$ 5,561
Share of the other comprehensive income of associates accounted for using the equity method	(16)	(1)	1
Cash flow hedges	593	20	-
Total other comprehensive income and loss	(1,635)	(54)	5,562
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	\$ 2,381	\$ 79	\$ 151,241
NET PROFIT ATTRIBUTABLE TO:			
Owners of the Company	\$ 4,016	\$ 133	\$ 145,435
Non-controlling interests	-	-	244
	\$ 4,016	\$ 133	\$ 145,679
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company	\$ 2,381	\$ 79	\$ 151,102
Non-controlling interests	-	-	139
	\$ 2,381	\$ 79	\$ 151,241
EARNINGS PER SHARE			
From continuing and discontinued operations			
Basic	<u>\$ 0.02</u>	<u>\$ -</u>	<u>\$ 0.56</u>
Diluted	<u>\$ 0.02</u>	<u>\$ -</u>	<u>\$ 0.56</u>
From continuing operations			
Basic	<u>\$ 0.02</u>	<u>\$ -</u>	<u>\$ 0.56</u>
Diluted	<u>\$ 0.02</u>	<u>\$ -</u>	<u>\$ 0.56</u>

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

(With Deloitte & Touche review report dated May 11, 2020)

(Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2020 and 2019
(In Thousands)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company						Other Equity						Total Equity
	Share Capital	Capital Surplus	Retained 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	
			Legal Reserve	Special Reserve	Unappropriated Earnings								
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 JANUARY 1, 2020	\$ 2,610,585	\$ 1,251	\$ 360,334	\$ 11,273	\$ 404,437	\$ 776,044	\$ (27,751)	\$ 19,450	\$ (674)	\$ (8,975)	\$ 3,378,905	\$ -	\$ 3,378,905
Appropriation of 2019 earnings Cash dividends distributed by the Company - NT\$1 per share	-	-	-	-	(261,058)	(261,058)	-	-	-	-	(261,058)	-	(261,058)
Net income for the three months ended March 31, 2020	-	-	-	-	4,016	4,016	-	-	-	-	4,016	-	4,016
Other comprehensive income (loss) for the three months ended March 31, 2020, net of income tax	-	-	-	-	-	-	(2,228)	-	593	(1,635)	(1,635)	-	(1,635)
Total comprehensive income (loss) for the three months ended March 31, 2020	-	-	-	-	4,016	4,016	(2,228)	-	593	(1,635)	2,381	-	2,381
BALANCE AT MARCH 31, 2020	\$ 2,610,585	\$ 1,251	\$ 360,334	\$ 11,273	\$ 147,395	\$ 519,002	\$ (29,979)	\$ 19,450	\$ (81)	\$ (10,610)	\$ 3,120,228	\$ -	\$ 3,120,228
BALANCE AT MARCH 31, 2020 (IN U.S. DOLLARS)	\$ 86,372	\$ 41	\$ 11,922	\$ 373	\$ 4,876	\$ 17,171	\$ (992)	\$ 644	\$ (3)	\$ (351)	\$ 103,233	\$ -	\$ 103,233

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(With Deloitte & Touche review report dated May 11, 2020)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

	For the Three Months Ended March 31		
	2020		2019
	NT\$	US\$ (Note)	NT\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	\$ 7,383	\$ 244	\$ 226,683
Loss before income tax from discontinued operations	-	-	(1,296)
Income before income tax	7,383	244	225,387
Adjustments for:			
Depreciation expenses	28,301	936	20,594
Amortization expenses	2,737	91	2,094
Expected credit loss reversed on trade receivables	(477)	(16)	(1,216)
Net gain on financial instruments at fair value through profit or loss	1,524	50	(2,462)
Finance costs	6,010	199	7,176
Interest income	(132)	(4)	(187)
Share of loss of associates	148	5	29,401
Loss on disposal of property, plant and equipment	45	2	31
Loss on disposal of associates	-	-	142,666
Reversal of write-downs of inventories	(143)	(5)	(994)
Unrealized net loss on foreign currency exchange	(1,865)	(62)	3,663
Gain from bargain purchase	-	-	(209,682)
Prepayment for lease	-	-	174
Changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(1,333)	(44)	4,257
Notes receivable	62,495	2,068	(1,795)
Contract assets	(116,358)	(3,850)	159,455
Trade receivables	78,810	2,607	(242,120)
Trade receivables from related parties	-	-	2,042
Inventories	(274,987)	(9,098)	(81,305)
Prepayments	46,480	1,538	2,366
Other current assets	31,028	1,027	(77,209)
Contract liabilities	204,452	6,764	15,473
Trade payables	(145,194)	(4,804)	(190,140)
Trade payables to related parties	3	-	(34,382)
Other payables	(146,069)	(4,833)	(13,751)
Provisions	170	6	(1,601)
Other current liabilities	19,707	652	34,433
Net defined benefit liabilities	(46,793)	(1,548)	(34,407)
Cash (used in) generated from operations	(244,058)	(8,075)	(242,039)
Interest received	150	5	187
Interest paid	(4,666)	(154)	(6,761)
Income tax paid	(786)	(26)	(115)
Net cash generated used in operating activities	(249,360)	(8,250)	(248,728)

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

	For the Three Months Ended March 31		
	2020		2019
	NT\$	US\$ (Note)	NT\$
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets at amortized cost	\$ (1,172)	\$ (39)	\$ -
Net cash inflow on acquisition of subsidiaries	-	-	167,758
Payments for property, plant and equipment	(9,667)	(320)	(9,810)
Proceeds from disposal of property, plant and equipment	15	1	-
Decrease (increase) in refundable deposits	(529)	(18)	2,077
Payments for intangible assets	(676)	(22)	(3,297)
Increase in prepayments	<u>(6,301)</u>	<u>(208)</u>	<u>(1,182)</u>
Net cash generated from (used in) investing activities	<u>(18,330)</u>	<u>(606)</u>	<u>155,546</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings	240,082	7,943	333,623
(Refund of) proceeds from guarantee deposits received	580	19	(10,880)
Repayment of the principal portion of lease liabilities	<u>(2,683)</u>	<u>(88)</u>	<u>(898)</u>
Net cash generated from financing activities	<u>237,979</u>	<u>7,874</u>	<u>321,845</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES			
	<u>(2,100)</u>	<u>(70)</u>	<u>7,231</u>
NET INCREASE (DECREASE) IN CASH	(31,811)	(1,052)	235,894
CASH AT THE BEGINNING OF THE PERIOD	<u>147,896</u>	<u>4,893</u>	<u>97,983</u>
CASH AT THE END OF THE PERIOD	<u>\$ 116,085</u>	<u>\$ 3,841</u>	<u>\$ 333,877</u>

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Reviewed, Not Audited)

	March 31		
	2020		2019
	NT\$	US\$ (Note)	NT\$
Cash in the consolidated balance sheets	\$ 116,085	\$ 3,841	\$ 332,405
Cash included in disposal group held for sale	-	-	1,472
Cash in the consolidated statements of cash flows	<u>\$ 116,085</u>	<u>\$ 3,841</u>	<u>\$ 333,877</u>

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

(With Deloitte & Touche review report dated May 11, 2020)

(Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019 (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 11, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

- 1) Amendments to IFRS 3 “Definition of a Business”

The Group applies the amendments to IFRS 3 to transactions that occur on or after January 1, 2020. The amendments require that for an entity to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. To judge whether the acquired process is substantive, there will be different judgement requirements depending on whether there is output on the acquisition date. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether or not an acquired set of activities and assets is a business.

- 2) Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”

Upon retrospective application of the amendments, the Group complied with the hedge accounting requirements under the assumption that the interest rate benchmark (such as the London Interbank Offered Rate or LIBOR) on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

3) Amendments to IAS 1 and IAS 8 “Definition of Material”

The Group adopted the amendments starting from January 1, 2020. The threshold for materiality influencing users has been changed to “could reasonably be expected to influence” and, therefore, the disclosures in the consolidated financial report have been adjusted and immaterial information that may obscure material information has been deleted.

b. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 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 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

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

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group’s interest as an unrelated investor in the associate or joint venture, i.e., the Group’s share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group’s interest as an unrelated investor in the associate or joint venture, i.e., the Group’s share of the gain or loss is eliminated.

2) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

a. Statement of compliance

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

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values 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			Remark
			March 31, 2020	December 31, 2019	March 31, 2019	
Fortune Electric Co., Ltd.	Power Energy International Ltd.	Trade business, Investment Holding, Agents business	100.00%	100.00%	100.00%	
	Fortune Electric America Inc.	Agents business	100.00%	100.00%	100.00%	
	Fortune Electric Extra High Voltage Co., Ltd.	Transformers manufacturing, machining and trading	100.00%	100.00%	100.00%	1)
	Fortune Electric Energy Co., Ltd.	Power generation, transmission and power distribution equipment manufacturing	100.00%	-	-	3)
Power Energy International Ltd.	Fortune Electric (Wuhan) Ltd.	Transformers, capacitors, power distribution equipment manufacturing	100.00%	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%	2)
	Wuhan Fortune Trade Co., Ltd.	Trade business	100.00%	100.00%	100.00%	

- 1) The Company originally owned 40% shares of Hitachi Fortune Transformer, Inc. (Hitachi Fortune Company). On March 28, 2019, the board of directors signed the termination of joint venture agreement with Hitachi, Ltd., which transferred its total of 84,720 thousand shares (60% shares) of Hitachi Fortune Transformer, Inc. to the Company without compensation on March 31, 2019. After completing the transfer, Hitachi Fortune Transformer, Inc. was renamed as Fortune Electric Extra High Voltage Co., Ltd. (Fortune High Voltage Company) on June 24, 2019.
- 2) The deregistration of Wuhan Huarong Co., Ltd. had been completed on August 5, 2019.
- 3) The established of Fortune Electric Energy Co., Ltd. had been completed on February 27, 2020 in Taipei City. The Company owned 100% shares of Electric Energy Co., Ltd.. Mainly engaged in power generation, transmission and power distribution equipment manufacturing.
- 4) Subsidiaries included in consolidated financial policies, except for the following, please refer to the consolidated financial statements for the year ended December 31, 2019.

d. Other significant accounting policies

Except for the following, please refer to the consolidated financial statements for the year ended December 31, 2019.

1) Retirement benefits

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

2) 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.

3) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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, 2019.