Fortune Electric Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Nine Months Ended September 30, 2020 and 2019

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

	September 30, 2020 (Reviewed)		December 31, 2019 (Audited)	September 30, 2019 (Reviewed)
ASSETS	**NT$**	**US$ (Note)**	**NT$**	**NT$**
CURRENT ASSETS				
Cash	$ 712,639	$ 24,489	$ 147,896	$ 894,350
Financial assets at fair value through profit or loss	-	-	68	798
Financial assets at amortized cost - current	3,071	106	4,459	-
Contract assets	945,741	32,500	536,077	680,437
Notes receivable	26,574	913	85,591	56,878
Trade receivables from unrelated parties	2,687,420	92,351	2,702,852	2,121,023
Current tax assets	8,567	294	8,567	8,567
Inventories, net	2,741,391	94,206	2,499,361	2,868,094
Prepayments	65,254	2,242	172,238	135,463
Non-current assets held for sale	505,112	17,358	-	-
Other current assets	41,323	1,420	79,752	234,080
Total current assets	7,737,092	265,879	6,236,861	6,999,690
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current	-	-	-	263
Financial assets at fair value through other comprehensive income	14,967	514	54,982	13,141
Financial assets at amortized cost - non-current	3,859	133	1,272	1,272
Investments accounted for using equity method	869	30	1,153	1,020
Property, plant and equipment	1,989,545	68,369	2,049,431	2,067,359
Right-of-use assets	121,916	4,190	150,722	110,595
Intangible assets	24,831	853	28,528	27,821
Deferred tax assets	42,177	1,449	55,749	47,814
Prepayments for equipment	6,073	209	4,108	2,671
Refundable deposits	4,714	162	3,825	7,261
Total non-current assets	2,208,951	75,909	2,349,770	2,279,217
TOTAL	$ 9,946,043	$ 341,788	$ 8,586,631	$ 9,278,907
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings	$ 1,172,585	$ 40,295	$ 253,312	$ 2,088,495
Short-term bills payable	419,528	14,417	199,447	-
Financial liabilities at fair value through profit or loss	4,339	149	1,401	954
Derivative financial liabilities for hedging	-	-	674	424
Contract liabilities	1,027,117	35,296	940,926	806,990
Trade payables to unrelated parties	1,994,053	68,524	2,181,134	1,791,131
Trade payables to related parties	28	1	12	1,119
Other payable	261,674	8,992	327,425	216,852
Current tax liabilities	5,587	192	76,050	42,492
Provisions	4,946	170	6,178	5,659
Liabilities directly associated with non-current assets held for sale	291,784	10,027	-	-
Lease liabilities - current	9,306	320	10,127	10,139
Other current liabilities	91,291	3,137	72,950	75,785
Total current liabilities	5,282,238	181,520	4,069,636	5,040,040
NON-CURRENT LIABILITIES				
Long-term borrowings	941,800	32,364	741,800	741,800
Deferred tax liabilities	63,086	2,168	64,606	64,132
Lease liabilities - non-current	113,579	3,903	119,361	78,074
Net defined benefit liabilities	154,520	5,310	208,070	182,060
Guarantee deposit received	10,414	358	4,253	4,253
Total non-current liabilities	1,283,399	44,103	1,138,090	1,070,319
Total liabilities	6,565,637	225,623	5,207,726	6,110,359
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital	2,610,585	89,711	2,610,585	2,610,585
Capital surplus	1,251	43	1,251	1,251
Retained earnings				
Legal reserve	400,777	13,772	360,334	360,334
Special reserve	8,975	308	11,273	11,273
Unappropriated earnings	409,310	14,066	404,437	232,929
Total retained earnings	819,062	28,146	776,044	604,536
Other equity				
Exchange differences on translating foreign operations	(29,927)	(1,028)	(27,751)	(25,009)
Unrealized gain or loss on financial assets at fair value through other comprehensive income	(20,565)	(707)	19,450	(22,391)
Cash flow hedges	-	-	(674)	(424)
Total other equity	(50,492)	(1,735)	(8,975)	(47,824)
Total equity attributable to owners of the Company	3,380,406	116,165	3,378,905	3,168,548
NON-CONTROLLING INTERESTS	-	-	-	-
Total equity	3,380,406	116,165	3,378,905	3,168,548
TOTAL	$ 9,946,043	$ 341,788	$ 8,586,631	$ 9,278,907

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT$29.10 to US$1.00 at September 30, 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.

(With Deloitte & Touche review report dated November 9, 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 September 30			For the Nine Months Ended September 30		
	2020		2019	2020		2019
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
OPERATING REVENUE						
Sales	$ 1,959,348	$ 67,331	$ 1,328,929	$ 4,996,089	$ 171,687	$ 3,552,807
Construction revenue	421,821	14,495	74,548	869,767	29,889	565,649
Total operating revenue	2,381,169	81,826	1,403,477	5,865,856	201,576	4,118,456
OPERATING COSTS						
Cost of goods sold	1,594,205	54,783	1,058,036	4,076,019	140,069	2,844,907
Construction cost	372,531	12,802	80,527	794,123	27,290	616,419
Total operating costs	1,966,736	67,585	1,138,563	4,870,142	167,359	3,461,326
GROSS PROFIT	414,433	14,241	264,914	995,714	34,217	657,130
OPERATING EXPENSES						
Selling and marketing expenses	130,455	4,483	101,312	418,585	14,384	347,252
General and administrative expenses	48,862	1,679	33,373	126,921	4,362	126,084
Research and development expenses	28,434	977	27,084	97,225	3,341	87,458
Total operating expenses	207,751	7,139	161,769	642,731	22,087	560,794
PROFIT FROM OPERATIONS	206,682	7,102	103,145	352,983	12,130	96,336
NON-OPERATING INCOME AND EXPENSES						
Other income	6,971	240	5,650	16,781	577	138,181
Interest income	70	2	172	274	9	600
Gain from bargain purchase - acquisition of subsidiaries	-	-	-	-	-	209,682
Other gains and losses	95	3	14,543	5,252	180	(117,991)
Share of profit or loss of associates	(86)	(3)	(171)	(258)	(9)	(29,732)
Finance costs	(7,468)	(256)	(9,163)	(19,996)	(687)	(25,940)
Total non-operating income and expenses	(418)	(14)	11,031	2,053	70	174,800
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	206,264	7,088	114,176	355,036	12,200	271,136
INCOME TAX EXPENSE (BENEFIT)	32,204	1,107	(21,787)	50,960	1,751	50,237
NET PROFIT FROM CONTINUING OPERATIONS	174,060	5,981	135,963	304,076	10,449	220,899
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	-	-	3	-	-	(610)
NET PROFIT FOR THE PERIOD	174,060	5,981	135,966	304,076	10,449	220,289

(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 September 30			For the Nine Months Ended September 30		
	2020		2019	2020		2019
	NT$	US$ (Note)	NT$	NT$	US$ (Note)	NT$
OTHER COMPREHENSIVE INCOME AND LOSS						
Items that may be not be reclassified subsequently to profit or loss:						
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	$ 5,215	$ 179	$ 240	$ (40,015)	$ (1,375)	$ (30,566)
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translating foreign operations	3,338	115	(8,416)	(2,150)	(73)	(5,674)
Cash flow hedges	-	-	(251)	674	23	(424)
Share of the other comprehensive income (loss) of associates accounted for using the equity method	3	-	(1)	(26)	(1)	45
	3,341	115	(8,668)	(1,502)	(51)	(6,053)
Total other comprehensive income and loss	8,556	294	(8,428)	(41,517)	(1,426)	(36,619)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 182,616	$ 6,275	$ 127,538	$ 262,559	$ 9,023	$ 183,670
NET PROFIT ATTRIBUTABLE TO:						
Owners of the Company	$ 174,060	$ 5,981	$ 134,958	$ 304,076	$ 10,449	$ 215,835
Non-controlling interests	-	-	1,008	-	-	4,454
	$ 174,060	$ 5,981	$ 135,966	$ 304,076	$ 10,449	$ 220,289
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:						
Owners of the Company	$ 182,616	$ 6,275	$ 126,518	$ 262,559	$ 9,023	$ 179,284
Non-controlling interests	-	-	1,020	-	-	4,386
	$ 182,616	$ 6,275	$ 127,538	$ 262,559	$ 9,023	$ 183,670
EARNINGS PER SHARE						
From continuing and discontinued operations						
Basic	$0.67	$0.02	$0.52	$1.16	$0.04	$0.83
Diluted	$0.67	$0.02	$0.52	$1.16	$0.04	$0.83
EARNINGS PER SHARE						
From continuing operations						
Basic	$0.67	$0.02	$0.52	$1.16	$0.04	$0.83
Diluted	$0.67	$0.02	$0.52	$1.16	$0.04	$0.83

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT$29.10 to US$1.00 at September 30, 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.

(With Deloitte & Touche review report dated November 9, 2020) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company												
			Retained Earnings				Other Equity						
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropri-ated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Valuation Gain (Loss) on Financial Assets at Fair Value Through Other Comprehen-sive Income	Cash Flow Hedges	Total	Controlling Interests	Non-controlling Interests	Total Equity
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
Appropriation 2018 earnings													
Legal reserve	-	-	6,008	-	(6,008)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(3,978)	3,978	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(78,318)	(78,318)	-	-	-	-	(78,318)	-	(78,318)
	-	-	6,008	(3,978)	(80,348)	(78,318)	-	-	-	-	(78,318)	-	(78,318)
Net income for the nine months ended September 30, 2019	-	-	-	-	215,835	215,835	-	-	-	-	215,835	4,454	220,289
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	-	-	-	(5,561)	(30,566)	(424)	(36,551)	(36,551)	(68)	(36,619)
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	215,835	215,835	(5,561)	(30,566)	(424)	(36,551)	179,284	4,386	183,670
BALANCE AT SEPTEMBER 30, 2019	$ 2,610,585	$ 1,251	$ 360,334	$ 11,273	$ 232,929	$ 604,536	$ (25,009)	$ (22,391)	$ (424)	$ (47,824)	$ 3,168,548	$ -	$ 3,168,548
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													
Legal reserve	-	-	40,443	-	(40,443)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(2,298)	2,298	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(261,058)	(261,058)	-	-	-	-	(261,058)	-	(261,058)
	-	-	40,443	(2,298)	(299,203)	(261,058)	-	-	-	-	(261,058)	-	(261,058)
Net Income for the nine months ended September 30, 2020	-	-	-	-	304,076	304,076	-	-	-	-	304,076	-	304,076
Other comprehensive income (loss) for the nine months ended September 30, 2020, net of income tax	-	-	-	-	-	-	(2,176)	(40,015)	674	(41,517)	(41,517)	-	(41,517)
Total comprehensive income (loss) for the nine months ended September 30, 2020	-	-	-	-	304,076	304,076	(2,176)	(40,015)	674	(41,517)	262,559	-	262,559
BALANCE AT SEPTEMBER 30, 2020	$ 2,610,585	$ 1,251	$ 400,777	$ 8,975	$ 409,310	$ 819,062	$ (29,927)	$ (20,565)	$ -	$ (50,492)	$ 3,380,406	$ -	$ 3,380,406
BALANCE AT SEPTEMBER 30, 2020 (IN U.S. DOLLARS)	$ 89,711	$ 43	$ 13,772	$ 308	$ 14,066	$ 28,146	$ (1,028)	$ (707)	$ -	$ (1,735)	$ 116,165	$ -	$ 116,165

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(With Deloitte & Touche review report dated November 9, 2020)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Nine Months Ended September 30		
	2020		2019
	NT$	US$ (Note)	NT$
CASH FLOWS USED IN OPERATING ACTIVITIES			
Income before income tax from continuing operations	$ 355,036	$ 12,201	$ 271,136
Loss before income tax from discontinued operations	-	-	(610)
Income before income tax	355,036	12,201	270,526
Adjustments for:			
Depreciation expenses	88,451	3,040	83,691
Amortization expenses	8,361	287	7,150
Expected credit loss recognized on trade receivables	7,052	242	2,747
Net gain on financial instruments at fair value through profit or loss	4,339	149	(107)
Finance costs	19,996	687	25,943
Interest income	(274)	(9)	(602)
Share of loss of associates	258	9	29,732
Loss on disposal of property, plant and equipment	32	1	24
Gain on disposal of investments	-	-	(2,562)
Loss on disposal of associates	-	-	142,666
Write-downs of inventories	3,801	131	-
Reversal of write-downs of inventories	-	-	(1,278)
Unrealized net loss on foreign currency exchange	8,385	288	1,524
Gain from bargain purchase	-	-	(209,682)
Changes in operating assets and liabilities			
Financial instruments at fair value through profit or loss	(1,333)	(46)	4,257
Contract assets	(409,664)	(14,078)	(83,370)
Notes receivable	58,839	2,022	(26,495)
Trade receivables	(173,815)	(5,973)	98,263
Trade receivables from related parties	-	-	2,042
Inventories	(457,831)	(15,733)	(819,257)
Prepayments	91,689	3,151	(57,807)
Other current assets	33,017	1,134	(111,773)
Contract liabilities	111,640	3,836	264,782
Trade payables	(32,557)	(1,119)	188,730
Trade payables to related parties	16	1	(33,263)
Other payables	(63,727)	(2,190)	45,877
Provisions	(1,232)	(42)	(4,175)
Other current liabilities	18,315	629	41,030
Net defined benefit liabilities	(53,550)	(1,840)	(40,715)
Cash used in operations	(384,756)	(13,222)	(182,102)
Interest received	281	10	602
Interest paid	(19,441)	(668)	(26,130)
Income tax paid	(114,514)	(3,935)	(139)
Net cash used in operating activities	(518,430)	(17,815)	(207,769)

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	For the Nine Months Ended September 30		
	2020		2019
	NT$	US$ (Note)	NT$
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial assets at amortized cost	$ (1,199)	$ (41)	$ -
Net cash inflow on acquisition of subsidiaries	-	-	167,758
Payments for property, plant and equipment	(46,160)	(1,586)	(34,613)
Proceeds from disposal of property, plant and equipment	751	26	31
Increase in refundable deposits	(895)	(31)	(74)
Payments for intangible assets	(4,666)	(160)	(7,162)
Increase in prepayments for equipment	(14,363)	(494)	(5,048)
Net cash generated from (used in) operating activities	(66,532)	(2,286)	120,892
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings	1,030,243	35,403	984,387
Repayments of short-term bills payable	220,081	7,563	-
Proceeds from long-term borrowings	200,000	6,873	-
Proceeds from guarantee deposits received	6,161	212	-
Refund of guarantee deposits received	-	-	(10,879)
Repayment of the principal portion of lease liabilities	(8,212)	(282)	(5,765)
Issue of cash dividends	(261,058)	(8,971)	(78,318)
Net cash generated from financing activities	1,187,215	40,798	889,425
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(1,706)	(59)	(6,181)
NET INCREASE IN CASH	600,547	20,638	796,367
CASH AT THE BEGINNING OF THE PERIOD	147,896	5,082	97,983
CASH AT THE END OF THE PERIOD	$ 748,443	$ 25,720	$ 894,350

(Continued)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

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

	September 30		
	2020		2019
	NT$	US$ (Note)	NT$
Cash in the consolidated balance sheets	$ 712,639	$ 24,490	$ 894,350
Cash included in disposal group held for sale	35,804	1,230	-
Cash in the consolidated statements of cash flows	$ 748,443	$ 25,720	$ 894,350

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT$29.10 to US$1.00 at September 30, 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.

(With Deloitte & Touche review report dated November 9, 2020) (Concluded)

FORTUNE ELECTRIC CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 November 9, 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 any 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.

4) Amendment to IFRS 16 "Covid-19-Related Rent Concessions"

The Group elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Before the application of the amendment, the Group shall determine whether the abovementioned rent concessions shall be accounted for as lease modifications.

The Group applied the amendment from January 1, 2020. Retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

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)
"Annual Improvements to IFRS Standards 2018–2020"	January 1, 2022 (Note 2)
Amendments to IFRS 3 "Reference to the Conceptual Framework"	January 1, 2022 (Note 3)
Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"	Effective immediately upon promulgation by the IASB
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2"	January 1, 2021
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, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"	January 1, 2022 (Note 4)
Amendments to IAS 37 "Onerous Contracts–Cost of Fulfilling a Contract"	January 1, 2022 (Note 5)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 "Agriculture" are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 "First-time Adoptions of IFRSs" are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable 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, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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.

3) Annual Improvements to IFRS Standards 2018-2020

   Several standards, including IFRS 9 “Financial Instruments”, were amended in the annual improvements. IFRS 9 requires to compare the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, with that of the cash flows under the original financial liability when there is an exchange or modification of debt instruments. The new terms and the original terms are substantially different if the difference between those discounted present values is at least 10 per cent. The amendments to IFRS 9 clarify that the only fees that should be included in the above assessment are those fees paid or received between the borrower and the lender.

4) Amendments to IFRS 3 “'Reference to the Conceptual Framework”

   The amendments replace the references to the Conceptual Framework of IFRS 3 and specify that the acquirer shall apply IFRIC 21 “Levies” to determine whether the event that gives rise to a liability for a levy has occurred at the acquisition date.

5) Amendments to IAS 16 “Property, Plant and Equipment: Proceeds before Intended Use”

   The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of those items is measured in accordance with IAS 2 “Inventories”. Any proceeds from selling those items and the cost of those items are recognized in profit or loss in accordance with applicable standards.

   The amendments are applicable only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021. The Group will restate its comparative information when it initially applies the aforementioned amendments.

6) Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”

   The amendments specify that when assessing whether a contract is onerous, the “cost of fulfilling a contract” includes both the incremental costs of fulfilling that contract (for example, direct labor and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of depreciation for an item of property, plant and equipment used in fulfilling the contract).

   The Group will recognize the cumulative effect of the initial application of the aforementioned amendments in the retained earnings at the date of the initial application.

7) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2””

   Several standards were amended in the amendments. The amendments to IFRS 9 and IFRS 16 provide specific practical expedient that the modification of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform shall be applied by revising the effective interest rate. Besides, the amendments to IFRS 9 introduce additional temporary exceptions for hedging relationships subject to interest rate benchmark reform.

   The Group may not restate prior reporting periods when applying the aforementioned amendments, and recognize the cumulative effect in the retained earnings or other component of equity at the date of the initial application instead.

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 consolidated 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 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 an 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 an 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 September 30, 2020	% of Ownership December 31, 2019	% of Ownership September 30, 2019	Remark
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	4)
Fortune Electric (Wuhan) Ltd.	Wuhan Huarong Co., Ltd.	Production and sale of transformer tank, machining, mechanical and electrical products, metal surface corrosion treatment	-	-	-	2)
	Wuhan Fortune Trade Co., Ltd.	Trade business	100.00	100.00	100.00	4)

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) The Company's board of directors authorized the chairman of the board of directors to sign the equity sale contract of Fortune Electric (Wuhan) Ltd. and its subsidiaries on July 24, 2020. It was signed on August 14, 2020, and is expected to be completed on July 31, 2021.

5) 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) Disposal Groups Classified As Held For Sale

Disposal groups 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, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

When a sale plan would result in a loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale, regardless of whether the Group will retain a non-controlling interest in that subsidiary after the sale.

2) 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

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.

4) 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.