

Fortune Electric Co., Ltd.

**Financial Statements for the
Six Months Ended June 30, 2005 and 2004 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Fortune Electric Co., Ltd.

We have audited the accompanying balance sheets of Fortune Electric Co., Ltd. for the six months ended June 30, 2005 and 2004 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Regulations for Audit of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

The carrying values of the equity-accounted long-term investments for the six months ended June 30, 2005 and 2004 amounted to NT\$175,242 thousand (including a credit balance NT\$27,987 thousand) and NT\$194,020 thousand (including a credit balance NT\$22,465 thousand), respectively, and the related equity in net loss for the six months then ended June 30, 2005 and 2004 amounted to NT\$10,498 thousand and NT\$27,600 thousand, respectively, are based on the investees' unaudited financial statements.

In our opinion, except for the effects of such adjustments, if any, might have been disclosed in the financial statements which we have had audited of investee companies explained in the preceding paragraph, financial statements referred to above present fairly, in all material respects, the financial position of Fortune Electric Co., Ltd. for the six months ended June 30, 2005 and 2004 and the results of its operations and its cash flows for the six months then ended in conformity with regulations governing the preparation of financial reports of public companies and generally accepted accounting principles in the Republic of China.

August 19, 2005

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

FORTUNE ELECTRIC CO., LTD.

BALANCE SHEETS

JUNE 30, 2005 AND 2004

(Expressed in Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2005		2004	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash	\$ 11,719	-	\$ 44,785	1
Short-term investments, net	1,690	-	1,562	-
Notes receivable	49,826	1	145,556	4
Accounts receivable, net of allowance of \$60,094 in 2005 and \$20,496 in 2004	1,162,321	23	912,690	24
Other financial assets - current	14,296	-	11,575	-
Inventories, net	1,390,045	28	651,366	17
Construction in process, net of advances	231,370	5	-	-
Prepayments	32,114	1	18,928	1
Other	97,379	2	77,911	2
Total current assets	2,990,760	60	1,864,373	49
LONG-TERM INVESTMENTS				
Equity-accounted long-term investment	175,242	4	194,020	5
Cost-accounted long-term investment	120,800	2	122,000	3
Total long-term investments	296,042	6	316,020	8
PROPERTIES				
Cost				
Land	573,113	11	573,113	15
Buildings and equipment	600,374	12	600,374	15
Machinery and equipment	846,210	17	761,485	20
Other equipment	80,097	2	79,285	2
Total cost	2,099,794	42	2,014,257	52
Appreciation	130,748	3	104,362	3
Total cost and appreciation	2,230,542	45	2,118,619	55
Accumulated depreciation	(649,063)	(13)	(581,954)	(15)
Prepayments for equipment	-	-	30	-
Net properties	1,581,479	32	1,536,695	40
DEFERRED PENSION COST	12,454	-	14,530	-
OTHER ASSETS	104,452	2	111,308	3
TOTAL	\$ 4,985,187	100	\$ 3,842,926	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term debts	\$ 433,903	9	\$ 232,691	6
Short-term negotiable instruments payable	581,711	12	24,000	1
Notes payable and accounts payable	1,204,489	24	703,639	18
Income tax payable	-	-	2,145	-
Accrued expenses	78,850	1	60,809	1
Dividends payable	-	-	30,885	1
Customers' advances	78,113	1	78,683	2
Construction advances - net of in process	164,833	3	228,788	6
Long-term debts matures inside a year	80,000	2	40,000	1
Other	29,541	1	38,115	1
Total current liabilities	2,651,440	53	1,439,755	37
LONG-TERM DEBTS	80,000	1	160,000	4
RESERVE FOR LAND VALUE INCREMENT TAX	34,528	1	56,414	2
OTHER LIABILITIES				
Accrued pension liability	58,230	1	58,314	1
Other	28,359	1	22,465	1
Total other liabilities	86,589	2	80,779	2
Total liabilities	2,852,557	57	1,736,948	45
STOCKHOLDERS' EQUITY				
Capital stock - \$10 par value				
Authorized - 275,000 thousand shares				
Issued - 205,902 thousand shares in 2005 and 215,119 thousand shares in 2004	2,059,024	41	2,151,194	56
Stock dividends to be issued				
Capital surplus				
Paid-in capital in excess of par value	3,525	-	3,684	-
Revaluation increment on properties	66,026	2	17,754	-
Total capital surplus	69,551	2	21,438	-
Retained earnings				
Legal reserve	-	-	195,903	5
Special reserve	49,372	1	55,266	2
Unappropriated earnings (deficit)	43,285	1	(72,712)	(2)
Total retained earnings	92,657	2	178,457	5
Others				
Unrealized valuation losses on long-term investments	(11,831)	-	(12,837)	-
Cumulative translation adjustments	(9,528)	-	(3,290)	-
Unrecognized pension cost, contra equity account, charge to stockholders' equity	(27,718)	(1)	(30,570)	(1)
Total others	(49,077)	(1)	(46,697)	(1)
Treasury stock - 2,846 thousand shares in 2005 and 12,063 thousand shares in 2004	(39,525)	(1)	(198,414)	(5)
Total stockholders' equity	2,132,630	43	2,105,978	55
TOTAL	\$ 4,985,187	100	\$ 3,842,926	100

(With Deloitte & Touche report dated August 19, 2005)

FORTUNE ELECTRIC CO., LTD.

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005		2004	
	Amount	%	Amount	%
OPERATING REVENUES				
Sales	\$ 1,483,652	80	\$ 864,028	98
Sales returns and allowances	<u>3,351</u>	-	<u>1,219</u>	-
Net sales	1,480,301	80	862,809	98
Construction revenues	<u>364,698</u>	<u>20</u>	<u>16,866</u>	<u>2</u>
Net operating revenues	<u>1,844,999</u>	<u>100</u>	<u>879,675</u>	<u>100</u>
OPERATING COST				
Cost of sales	1,321,850	72	803,841	92
Cost of construction	<u>318,550</u>	<u>17</u>	<u>16,720</u>	<u>2</u>
Total operating costs	<u>1,640,400</u>	<u>89</u>	<u>820,561</u>	<u>94</u>
UNREALIZED LOSS	<u>7,509</u>	-	-	-
GROSS PROFIT	<u>212,108</u>	<u>11</u>	<u>59,114</u>	<u>6</u>
OPERATING EXPENSES				
Selling	108,902	6	84,117	10
General and administrative	31,103	2	35,815	4
Research and development	<u>27,988</u>	<u>1</u>	<u>30,790</u>	<u>3</u>
Total operating expenses	<u>167,993</u>	<u>9</u>	<u>150,722</u>	<u>17</u>
INCOME (LOSS) FROM OPERATIONS	<u>44,115</u>	<u>2</u>	<u>(91,608)</u>	<u>(11)</u>
NON-OPERATING INCOME AND PROFITS				
Gain on exchange	6,631	1	3,796	1
Gain on compensation	4,985	-	-	-
Sale of scraps	4,684	-	2,971	-
Service revenue	4,187	-	9,153	1
Rental	669	-	392	-
Other	<u>11,735</u>	<u>1</u>	<u>15,728</u>	<u>2</u>
Total non-operating income and profits	<u>32,891</u>	<u>2</u>	<u>32,040</u>	<u>4</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest	11,362	1	4,806	1
Investment loss recognized under equity method	10,498	-	27,600	3
Loss on disposal of properties	1,361	-	99	-
Perpetual impairment on long-term investment	1,200	-	-	-

(Continued)

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Loss on decline in value of inventories	\$ 91	-	\$ 2,422	-
Other	<u>1,818</u>	<u>-</u>	<u>2,274</u>	<u>-</u>
Total non-operating expenses and losses	<u>26,330</u>	<u>1</u>	<u>37,201</u>	<u>4</u>
INCOME (LOSS) BEFORE INCOME TAX	50,676	3	(96,769)	(11)
INCOME TAX EXPENSE (BENEFIT)	<u>7,391</u>	<u>1</u>	<u>(11,770)</u>	<u>(1)</u>
NET INCOME (LOSS)	<u>\$ 43,285</u>	<u>2</u>	<u>\$ (84,999)</u>	<u>(10)</u>
	<u>2005</u>		<u>2004</u>	
	<u>Pre-tax</u>	<u>After-tax</u>	<u>Pre-tax</u>	<u>After-tax</u>
EARNINGS PER SHARE				
Basic earnings per share	<u>\$ 0.25</u>	<u>\$ 0.21</u>	<u>\$ (0.48)</u>	<u>\$ (0.42)</u>

Pro-forma (as if) information, assuming stocks of parent company traded and held by subsidiary regarded as investments rather than treasury stock:

	<u>2005</u>		<u>2004</u>	
	<u>Pre-tax</u>	<u>After-tax</u>	<u>Pre-tax</u>	<u>After-tax</u>
NET INCOME (LOSS)	<u>\$53,208</u>	<u>\$45,817</u>	<u>\$(90,432)</u>	<u>\$(78,662)</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.26</u>	<u>\$ 0.22</u>	<u>\$ (0.44)</u>	<u>\$ (0.38)</u>

(With Deloitte & Touche report dated August 19, 2005)

(Concluded)

FORTUNE ELECTRIC CO., LTD.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004**

(Expressed in Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock Issued		Capital Surplus			Retained Earnings				Total Others			Treasury Stock	Total Stockholders' Equity	
			Paid-in Capital	Revaluation Increment on Properties	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Deficit)	Total	Unrealized Valuation Losses on Long-term Investments	Cumulative Translation Adjustments	Unrecognized Pension Cost, Contra Equity Account, Charge to Stockholders' Equity			Total
BALANCE, JANUARY 1, 2005	205,902	\$ 2,059,024	\$ 3,525	\$ 17,754	\$ 21,279	\$ 195,903	\$ 55,266	\$ (201,797)	\$ 49,372	\$ (10,953)	\$ (9,244)	\$ (27,718)	\$ (47,915)	\$ (39,525)	\$ 2,042,235
Adjustment on the land value incremental tax	-	-	-	28,207	28,207	-	-	-	-	-	-	-	-	-	28,207
Revaluation increment on properties	-	-	-	20,065	20,065	-	-	-	-	-	-	-	-	-	20,065
Appropriations of prior years' earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(195,903)	-	195,903	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(5,894)	5,894	-	-	-	-	-	-	-
Net income for the six months then ended June 30, 2005	-	-	-	-	-	-	-	43,285	43,285	-	-	-	-	-	43,285
Unrealized valuation losses on long-term investments	-	-	-	-	-	-	-	-	-	(878)	-	-	(878)	-	(878)
Cumulative transaction on long-term investments	-	-	-	-	-	-	-	-	-	-	(284)	-	(284)	-	(284)
BALANCE, JUNE 30, 2005	<u>205,902</u>	<u>\$ 2,059,024</u>	<u>\$ 3,525</u>	<u>\$ 66,026</u>	<u>\$ 69,551</u>	<u>\$ -</u>	<u>\$ 49,372</u>	<u>\$ 43,285</u>	<u>\$ 92,657</u>	<u>\$ (11,831)</u>	<u>\$ (9,528)</u>	<u>\$ (27,718)</u>	<u>\$ (49,077)</u>	<u>\$ (39,525)</u>	<u>\$ 2,132,630</u>
BALANCE, JANUARY 1, 2004	215,119	\$ 2,151,194	\$ 3,684	\$ 17,754	\$ 21,438	\$ 190,523	\$ 51,644	\$ 53,800	\$ 295,967	\$ (16,353)	\$ (2,514)	\$ (30,570)	\$ (49,437)	\$ (198,414)	\$ 2,220,748
Special reserve transferred	-	-	-	-	-	-	(4,576)	4,576	-	-	-	-	-	-	-
Appropriations of prior years' earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	5,380	-	(5,380)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	8,198	(8,198)	-	-	-	-	-	-	-
Cash dividends - \$0.15 per share	-	-	-	-	-	-	-	(30,885)	(30,885)	-	-	-	-	-	(30,885)
Bonus to employees	-	-	-	-	-	-	-	(1,138)	(1,138)	-	-	-	-	-	(1,138)
Bonus to directors and supervisors	-	-	-	-	-	-	-	(488)	(488)	-	-	-	-	-	(488)
Net loss for the six months then ended June 30, 2004	-	-	-	-	-	-	-	(84,999)	(84,999)	-	-	-	-	-	(84,999)
Unrealized valuation losses on long-term investments	-	-	-	-	-	-	-	-	-	3,516	-	-	3,516	-	3,516
Cumulative transaction adjustments on long-term investments	-	-	-	-	-	-	-	-	-	-	(776)	-	(776)	-	(776)
BALANCE, JUNE 30, 2004	<u>215,119</u>	<u>\$ 2,151,194</u>	<u>\$ 3,684</u>	<u>\$ 17,754</u>	<u>\$ 21,438</u>	<u>\$ 195,903</u>	<u>\$ 55,266</u>	<u>\$ (72,712)</u>	<u>\$ 178,457</u>	<u>\$ (12,837)</u>	<u>\$ (3,290)</u>	<u>\$ (30,570)</u>	<u>\$ (46,697)</u>	<u>\$ (198,414)</u>	<u>\$ 2,105,978</u>

(With Deloitte & Touche report dated August 19, 2005)

FORTUNE ELECTRIC CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (Expressed in Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 43,285	\$ (84,999)
Depreciation and amortization	48,097	42,484
Provision (reversal of allowance) for losses on decline in value of short-term investments	(93)	92
Provision for losses on decline in value of inventories	91	2,422
Investment loss recognized under equity method	10,498	27,600
Provision for perpetual impairment on long-term investment	1,200	-
Provision bad debt	276	17,998
Net loss on sale of properties	1,304	12
Provision for pension liabilities	3,121	2,954
Unrealized loss	7,509	-
Deferred income tax	7,477	(14,946)
Changes in operating assets and liabilities		
Notes receivable	33,439	(107,542)
Accounts receivable	(243,939)	536,471
Other financial assets - current	11,171	5,601
Inventories	(483,901)	(229,600)
Construction in process	(105,538)	-
Prepayments	(3,752)	638
Other current assets	2,849	10,474
Notes payable and accounts payable	374,465	(26,283)
Income tax payable	(2,134)	(15,525)
Accrued expenses	6,411	(37,619)
Customers' advances	(14,922)	9,116
Construction advances	(17,570)	85,279
Other current liabilities	(6,732)	(15,931)
Net cash provided by (used in) operating activities	<u>(327,388)</u>	<u>208,696</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(12,134)	(4,851)
Disposal of properties	2,231	140
Increase in other assets	<u>(13,846)</u>	<u>(8,957)</u>
Net cash used in investing activities	<u>(23,749)</u>	<u>(13,668)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term debts	211,767	(166,085)
Increase (decrease) in short-term negotiable instruments payable	107,941	(28,981)
Decrease in long-term debts	(40,000)	-
Increase in other liabilities	<u>372</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>280,080</u>	<u>(195,066)</u>

(Continued)

	2005	2004
NET DECREASE IN CASH	\$ (71,057)	\$ (38)
CASH, BEGINNING OF PERIOD	<u>82,776</u>	<u>44,823</u>
CASH, END OF PERIOD	<u>\$ 11,719</u>	<u>\$ 44,785</u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 10,858</u>	<u>\$ 4,861</u>
Income tax paid	<u>\$ 3,671</u>	<u>\$ 17,256</u>
Non-cash investing and financing activities		
Reclassified from inventories to properties	<u>\$ 645</u>	<u>\$ 28,459</u>
Stock held by subsidiary reclassified from long-term investments to treasury stock	<u>\$ 5,263</u>	<u>\$ 5,349</u>
Long-term debts matures inside a year	<u>\$ 80,000</u>	<u>\$ 40,000</u>

(With Deloitte & Touche report dated August 19, 2005)

(Concluded)