

Fortune Electric Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2007 and 2006 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 the Fortune Electric Co., Ltd. (the Company) as of December 31, 2007 and 2006 and the related statements of income, changes in stockholders' equity, and cash flows for the years 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 the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fortune Electric Co., Ltd. as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34 "Accounting for Financial Instruments" and No 36 "Disclosure and Presentation for Financial Instruments" and related revisions of previously released SFASs.

March 7, 2008

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

DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash	\$ 40,572	1	\$ 24,696	-	Short-term debts	\$ 735,068	12	\$ 591,998	9
Financial asset at fair value through profit or loss - current	3,122	-	682	-	Short-term negotiable instruments payable	-	-	446,685	7
Hedge derivative financial assets - current	1,504	-	27,040	1	Notes payable	-	-	211	-
Notes receivable	126,204	2	25,695	1	Accounts payable	650,024	10	761,417	12
Accounts receivable, net of allowance of \$31,348 in 2007 and \$94,749 in 2006	1,737,236	28	1,258,114	20	Income tax payable	116,481	2	36,944	1
Other financial assets - current	34,017	1	67,461	1	Accrued expenses	223,101	4	139,968	2
Inventories, net	2,056,400	33	2,083,691	33	Construction payable	359,407	6	684,020	11
Construction in process, net of advances	335,803	5	804,843	13	Customers' advances	611,559	10	529,876	9
Prepayments	99,711	2	114,031	2	Construction advances, net of construction in progress	221,761	3	232,940	4
Deferred income tax assets - current	23,237	-	22,654	-	Current portion of long-term debts	110,000	2	150,000	2
Other	26,161	1	55,740	1	Other	19,909	-	7,029	-
Total current assets	4,483,967	73	4,484,647	72	Total current liabilities	3,047,310	49	3,581,088	57
LONG-TERM INVESTMENTS					LONG-TERM DEBTS	216,667	3	156,667	2
Investments accounted for using equity method	105,846	2	132,021	2	RESERVE FOR LAND VALUE INCREMENT TAX	34,528	1	34,528	1
Hedge derivative financial assets - noncurrent	2,484	-	646	-	OTHER LIABILITIES				
Financial assets carried at cost - noncurrent	70,800	1	70,800	1	Accrued pension liability	110,649	2	100,159	2
Total long-term investment	179,130	3	203,467	3	Other	1,267	-	10	-
PROPERTIES					Total other liabilities	111,916	2	100,169	2
Cost					Total liabilities	3,410,421	55	3,872,452	62
Land	573,113	9	573,113	9	STOCKHOLDERS' EQUITY				
Buildings and equipment	600,267	10	600,267	10	Capital stock - \$10 par value				
Machinery and equipment	863,639	14	840,897	14	Authorized - 275,000 thousand shares in 2006 and 2005				
Other equipment	74,163	1	77,361	1	Issued - 205,902 thousand shares in 2006 and 2005	2,059,024	33	2,059,024	33
Total cost	2,111,182	34	2,091,638	34	Capital surplus				
Appreciation	130,748	2	130,748	2	Paid-in capital in excess of par value	3,525	-	3,525	-
Total cost and appreciation	2,241,930	36	2,222,386	36	Treasury stock	23,613	1	1,421	-
Accumulated depreciation	796,725	13	736,555	12	Total capital surplus	27,138	1	4,946	-
Prepayment for equipment	1,445,205	23	1,485,831	24	Retained earnings				
	1,566	-	1,362	-	Legal reserve	35,788	-	13,668	-
Net properties	1,446,771	23	1,487,193	24	Special reserve	-	-	93,696	1
DEFERRED PENSION COST	6,226	-	8,320	-	Unappropriated earnings	660,426	11	222,531	4
OTHER ASSETS					Total retained earnings	696,214	11	329,895	5
Deferred income tax assets - noncurrent	41,152	1	41,119	-	Others				
Other	36,250	-	46,954	1	Cumulative transaction adjustments	(2,143)	-	(4,176)	-
Total other assets	77,402	1	88,073	1	Net loss not recognized as pension cost	(59,823)	(1)	(58,659)	(1)
TOTAL	\$ 6,193,496	100	\$ 6,271,700	100	Unrealized gains (losses) on financial instruments	(3,361)	-	23,813	-
					Unrealized land value increment	66,026	1	66,026	1
					Treasury stock - 1,557 thousand shares in 2006	-	-	(21,621)	-
					Total others	699	-	5,383	-
					Total stockholders' equity	2,783,075	45	2,399,248	38
					TOTAL	\$ 6,193,496	100	\$ 6,271,700	100

(With Deloitte & Touche audit report dated March 7, 2008)

FORTUNE ELECTRIC CO., LTD.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

	2007		2006	
	Amount	%	Amount	%
OPERATING REVENUE				
Sales	\$ 5,512,293	86	\$ 3,830,918	75
Sales returns and allowances	<u>5,384</u>	<u>-</u>	<u>1,091</u>	<u>-</u>
Net sales	5,506,909	86	3,829,827	75
Construction revenues	<u>870,416</u>	<u>14</u>	<u>1,263,272</u>	<u>25</u>
Net operating revenues	<u>6,377,325</u>	<u>100</u>	<u>5,093,099</u>	<u>100</u>
OPERATING COST				
Cost of sales	4,070,233	64	3,028,944	60
Cost of construction	<u>921,344</u>	<u>14</u>	<u>1,244,701</u>	<u>24</u>
Total operating costs	<u>4,991,577</u>	<u>78</u>	<u>4,273,645</u>	<u>84</u>
	1,385,748	22	819,454	16
REALIZED LOSSES ON INTERCOMPANY SALES	<u>-</u>	<u>-</u>	<u>(9,687)</u>	<u>-</u>
GROSS PROFIT	<u>1,385,748</u>	<u>22</u>	<u>809,767</u>	<u>16</u>
OPERATING EXPENSES				
Selling	426,783	7	289,068	6
General and administrative	75,102	1	71,376	2
Research and development	<u>64,125</u>	<u>1</u>	<u>71,143</u>	<u>1</u>
Total operating expenses	<u>566,010</u>	<u>9</u>	<u>431,587</u>	<u>9</u>
OPERATING INCOME	<u>819,738</u>	<u>13</u>	<u>378,180</u>	<u>7</u>
NON-OPERATING INCOME AND GAINS				
Investment gain recognized under the equity method	6,850	-	-	-
Scrap revenue	16,259	-	10,547	-
Foreign-currency exchange gain, net	4,712	-	19,433	-
Indemnification revenue	16,165	-	5,146	-
Rental	1,962	-	1,849	-
Service revenue	1,292	-	6,685	-
Reversal of provision for inventory valuation	4,862	-	26,328	1
Valuation gain on financial assets	3,122	-	682	-
Other	<u>25,455</u>	<u>1</u>	<u>24,367</u>	<u>1</u>
Total non-operating income and gains	<u>80,679</u>	<u>1</u>	<u>95,037</u>	<u>2</u>

(Continued)

FORTUNE ELECTRIC CO., LTD.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

	2007		2006	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Interest	\$ 53,099	1	\$ 29,540	1
Investment loss recognized under the equity method	-	-	63,499	1
Loss on disposal of properties	1,100	-	17,645	-
Loss on inventory obsolescence	25,155	-	28,567	1
Impairment loss of financial assets	-	-	50,000	1
Other	<u>3,578</u>	<u>-</u>	<u>3,414</u>	<u>-</u>
Total non-operating expenses and losses	<u>82,932</u>	<u>1</u>	<u>192,665</u>	<u>4</u>
INCOME BEFORE INCOME TAX	817,485	13	280,552	5
INCOME TAX EXPENSE	<u>157,670</u>	<u>3</u>	<u>59,139</u>	<u>1</u>
	659,815	10	221,413	4
CUMULATIVE EFFECT OF CHANGES IN ACCOUNT PRINCIPLE, NET OF TAX EXPENSE OF NT\$70 THOUSAND				
	<u>-</u>	<u>-</u>	<u>(212)</u>	<u>-</u>
NET INCOME	<u>\$ 659,815</u>	<u>10</u>	<u>\$ 221,201</u>	<u>4</u>

	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic earnings per share				
Income before income tax	\$ 3.98	\$ 3.21	\$ 1.38	\$ 1.09
Cumulative effect of change in account principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 3.98</u>	<u>\$ 3.21</u>	<u>\$ 1.38</u>	<u>\$ 1.09</u>

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

	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	<u>\$ 847,070</u>	<u>\$ 689,400</u>	<u>\$ 288,095</u>	<u>\$ 228,744</u>
BASIC EARNINGS PER SHARE				
Income before income tax	\$ 4.11	\$ 3.35	\$ 1.40	\$ 1.11
Cumulative effect of change in account principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 4.11</u>	<u>\$ 3.35</u>	<u>\$ 1.40</u>	<u>\$ 1.11</u>

(With Deloitte & Touche audit report dated March 7, 2008)

(Concluded)

FORTUNE ELECTRIC CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	Capital Stock Issued		Paid-in Capital			Retained Earnings				Total Others					Total Stockholders' Equity	
	Shares (Thousand)	Amount	Excess of Par Value	Treasury Stock		Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments	Unrecognized Pension Cost, Contra Equity Account, Charge to Stockholders' Equity	Unrealized Gains (Losses) on Financial Instruments	Revaluation Increment on Properties	Treasury Stock		Total
				Transaction	Total											
BALANCE, JANUARY 1, 2006	205,902	\$ 2,059,024	\$ 3,525	\$ -	\$ 3,525	\$ -	\$ 49,372	\$ 136,678	\$ 186,050	\$ (4,257)	\$ (63,640)	\$ (25,374)	\$ 66,026	\$ (39,525)	\$ (66,770)	\$ 2,181,829
Appropriations of prior years' earnings																
Legal reserve	-	-	-	-	-	13,668	-	(13,668)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	44,324	(44,324)	-	-	-	-	-	-	-	-
Cash dividends - 0.34 per share	-	-	-	-	-	-	-	(70,007)	(70,007)	-	-	-	-	-	-	(70,007)
Bonus to employees	-	-	-	-	-	-	-	(6,189)	(6,189)	-	-	-	-	-	-	(6,189)
Bonus to directors and supervisors	-	-	-	-	-	-	-	(1,160)	(1,160)	-	-	-	-	-	-	(1,160)
Net income for the year ended December 31, 2006	-	-	-	-	-	-	-	221,201	221,201	-	-	-	-	-	-	221,201
Treasury stock transaction	-	-	-	1,421	1,421	-	-	-	-	-	-	-	-	17,904	17,904	19,325
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	8,411	-	-	8,411	8,411
Unrealized gain on hedge derivative financial assets	-	-	-	-	-	-	-	-	-	-	-	40,776	-	-	40,776	40,776
Cumulative transaction adjustments on long-term investments	-	-	-	-	-	-	-	-	-	81	-	-	-	-	81	81
Reversion for minimum pension liabilities	-	-	-	-	-	-	-	-	-	-	4,981	-	-	-	4,981	4,981
BALANCE, DECEMBER 31, 2006	205,902	2,059,024	3,525	1,421	4,946	13,668	93,696	222,531	329,895	(4,176)	(58,659)	23,813	66,026	(21,621)	5,383	2,399,248
Appropriations of prior years' earnings																
Legal reserve	-	-	-	-	-	22,120	-	(22,120)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(93,696)	93,696	-	-	-	-	-	-	-	-
Cash dividends - 1.29 per share	-	-	-	-	-	-	-	(265,614)	(265,614)	-	-	-	-	-	-	(265,614)
Bonus to employees	-	-	-	-	-	-	-	(23,480)	(23,480)	-	-	-	-	-	-	(23,480)
Bonus to directors and supervisors	-	-	-	-	-	-	-	(4,402)	(4,402)	-	-	-	-	-	-	(4,402)
Net income for the year ended December 31, 2007	-	-	-	-	-	-	-	659,815	659,815	-	-	-	-	-	-	659,815
Treasury stock transaction	-	-	-	22,192	22,192	-	-	-	-	-	-	-	-	21,621	21,621	43,813
Unrealized losses on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(1,912)	-	-	(1,912)	(1,912)
Unrealized losses on hedge derivative financial assets	-	-	-	-	-	-	-	-	-	-	-	(25,262)	-	-	(25,262)	(25,262)
Cumulative transaction adjustments on long-term investments	-	-	-	-	-	-	-	-	-	2,033	-	-	-	-	2,033	2,033
Reversion for minimum pension liabilities	-	-	-	-	-	-	-	-	-	-	(1,164)	-	-	-	(1,164)	(1,164)
BALANCE, DECEMBER 31, 2007	205,902	2,059,024	3,525	23,613	27,138	35,788	-	660,426	696,214	(2,143)	(59,823)	(3,361)	66,026	-	699	2,783,075

(With Deloitte & Touche audit report dated March 7, 2008)

FORTUNE ELECTRIC CO., LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 659,815	\$ 221,201
Cumulative effect of changes in accounting principles	-	212
Depreciation and amortization	95,091	89,280
Valuation gain on financial assets	(3,122)	(682)
Impairment loss of financial assets	-	50,000
Provision (reversal) for bad debt	(63,401)	32,112
Loss on inventory obsolescence	25,155	28,567
Reversal of provision for inventory valuation	(4,862)	(26,328)
Investment (gain) loss recognized under the equity method	(6,850)	63,499
Net loss on disposal of properties	737	17,328
Provision for pension liabilities	11,420	11,756
Deferred income tax	(616)	11,871
Changes in operating assets and liabilities		
Hedge derivative financial assets - current	(1,564)	-
Notes receivable	(100,509)	6,361
Accounts receivable	(415,721)	(233,748)
Other financial assets - current	33,444	(55,621)
Inventories	(2,443)	(532,194)
Construction in process	469,040	(573,890)
Prepayments	14,320	(18,375)
Other current assets	29,579	24,206
Notes payable	(211)	(418)
Accounts payable	(111,393)	(170,518)
Income tax payable	79,537	31,883
Accrued expenses	83,133	50,205
Construction payable	(324,613)	563,088
Customers' advances	81,683	211,935
Construction advances	(11,179)	12,313
Other current liabilities	<u>12,880</u>	<u>(51,352)</u>
Net cash provided by (used in) operating activities	<u>549,350</u>	<u>(237,309)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in long-term investments accounted for using equity method	-	(39,355)
Decrease in financial asset at fair value through profit or loss - current	682	-
Receivable from liquidated investee	76,959	-
Acquisition of properties	(30,494)	(36,316)
Proceeds from sale of properties	717	4,014
Increase in other assets	<u>(5,484)</u>	<u>(153)</u>
Net cash provided by (used in) investing activities	<u>42,380</u>	<u>(71,810)</u>

(Continued)

FORTUNE ELECTRIC CO., LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term debts	\$ 143,070	\$ (85,875)
Increase (Decrease) in short-term negotiable instruments payable	(446,685)	289,909
Increase in long-term debts	20,000	186,667
Cash dividends paid	(265,614)	(70,007)
Bonus paid to employees, directors and supervisors	(27,882)	(7,349)
Increase in other liabilities	<u>1,257</u>	<u>-</u>
Net cash (used in) provided by financing activities	<u>(575,854)</u>	<u>313,345</u>
NET INCREASE IN CASH	15,876	4,226
CASH, BEGINNING OF YEAR	<u>24,696</u>	<u>20,470</u>
CASH, END OF YEAR	<u>\$ 40,572</u>	<u>\$ 24,696</u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 49,550</u>	<u>\$ 28,508</u>
Income tax paid	<u>\$ 78,749</u>	<u>\$ 15,315</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Transfer inventories to properties	<u>\$ 9,441</u>	<u>\$ 9,737</u>
Current portion of long-term debts	<u>\$ 110,000</u>	<u>\$ 150,000</u>
Reverse credits balance of long-term investment, net	<u>\$ -</u>	<u>\$ 36,614</u>
Receivable from liquidated investee netted by payable to related party	<u>\$ -</u>	<u>\$ 7,470</u>

(With Deloitte & Touche audit report dated March 7, 2008)

(Concluded)