

**Fortune Electric Co., Ltd.**

**Financial Statements for the  
Six Months Ended June 30, 2008 and 2007 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, 2008 and 2007, and the related statements of income, statements of 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.

Except the third paragraph, 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.

The carrying values of the investments accounted for using equity method as of June 30, 2008 and 2007 amounted to NT\$100,290 thousand and NT\$157,770 thousand, respectively. The related equity in gain for the six months then ended June 30, 2008 and 2007 amounted to NT\$4,295 thousand and NT\$11,836 thousand, respectively, were based on the investee's unreviewed financial statements for the same reporting periods as those of the Company.

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, 2008 and 2007 and the results of its operations and its cash flows for the six months then ended in conformity with Guidelines Governing the Preparation of Financial Reports of 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, 2008, the Company adopted the ARDF issued Interpretation 2007-052 that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings.

August 8, 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

JUNE 30, 2008 AND 2007

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

ASSETS	2008		2007		LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash	\$ 29,639	-	\$ 31,999	-	Short-term debts	\$ 807,614	12	\$ 761,013	11
Financial asset at fair value through profit or loss - current	3,157	-	16,068	-	Short-term negotiable instruments payable	479,774	7	299,600	4
Hedge derivative financial assets - current	3,270	-	2,473	-	Accounts payable	852,856	12	905,525	13
Notes receivable	45,183	1	35,721	1	Income tax payable	86,359	1	91,081	1
Accounts receivable, net of allowance of \$35,349 in 2008 and \$66,984 in 2007	2,036,012	30	1,690,486	24	Accrued expenses	199,388	3	157,999	2
Other financial assets - current	22,273	-	39,528	1	Dividend payable	411,805	6	265,614	4
Inventories, net	2,296,873	33	2,262,697	32	Construction payable	377,053	5	655,809	9
Construction in process, net of advances	464,214	7	697,105	10	Customers' advances	464,204	7	600,073	9
Prepayments	196,951	3	328,123	5	Construction advances, net of construction in progress	-	-	130,082	2
Deferred income tax assets - current	15,387	-	24,709	-	Current portion of long-term debts	101,667	2	130,000	2
Other	68,276	1	41,161	1	Other	69,588	1	39,050	1
Total current assets	5,181,235	75	5,170,070	74	Total current liabilities	3,850,308	56	4,035,846	58
<b>LONG-TERM INVESTMENTS</b>					LONG-TERM DEBTS	170,000	2	271,667	4
Investments accounted for using equity method	100,290	2	157,770	3	RESERVE FOR LAND VALUE INCREMENT TAX	34,528	1	34,528	-
Hedge derivative financial assets - noncurrent	666	-	343	-	OTHER LIABILITIES				
Financial assets carried at cost - noncurrent	70,800	1	70,800	1	Accrued pension liability	117,639	2	105,904	2
Total long-term investment	171,756	3	228,913	4	Guarantee deposits received	1,419	-	10	-
<b>PROPERTIES</b>					Total other liabilities	119,058	2	105,914	2
Cost					Total liabilities	4,173,894	61	4,447,955	64
Land	573,113	8	573,113	8	<b>STOCKHOLDERS' EQUITY</b>				
Buildings and equipment	600,267	9	600,267	9	Capital stock - \$10 par value				
Machinery and equipment	884,166	13	858,847	12	Authorized - 275,000 thousand shares in 2008 and 2007				
Other equipment	72,144	1	73,772	1	Issued - 205,902 thousand shares in 2008 and 2007	2,059,024	30	2,059,024	29
Total cost	2,129,690	31	2,105,999	30	Reserve for raising capital	102,951	2	-	-
Appreciation	130,748	2	130,748	2	Capital surplus				
Total cost and appreciation	2,260,438	33	2,236,747	32	Paid-in capital in excess of par value	3,525	-	3,525	-
Accumulated depreciation	829,935	12	762,983	11	Treasury stock transactions	23,613	-	6,314	-
	1,430,503	21	1,473,764	21	Total capital surplus	27,138	-	9,839	-
Prepayment for equipment	18,533	-	855	-	Retained earnings				
Net properties	1,449,036	21	1,474,619	21	Legal reserve	101,770	1	35,788	1
DEFERRED PENSION COST	6,226	-	8,320	-	Unappropriated earnings	404,466	6	420,068	6
OTHER ASSETS					Total retained earnings	506,236	7	455,856	7
Deferred income tax assets - noncurrent	34,783	-	39,259	-	Others				
Other	42,529	1	49,387	1	Cumulative transaction adjustments	(2,063)	-	(3,132)	-
Total other assets	77,312	1	88,646	1	Net loss not recognized as pension cost	(59,823)	(1)	(58,659)	(1)
<b>TOTAL</b>	<b>\$ 6,885,565</b>	<b>100</b>	<b>\$ 6,970,568</b>	<b>100</b>	Unrealized gain (losses) on financial instruments	12,182	-	(929)	-
					Unrealized land value increment	66,026	1	66,026	1
					Treasury stock - 390 thousand shares in 2007	-	-	(5,412)	-
					Total others	16,322	-	(2,106)	-
					Total stockholders' equity	2,711,671	39	2,522,613	36
					<b>TOTAL</b>	<b>\$ 6,885,565</b>	<b>100</b>	<b>\$ 6,970,568</b>	<b>100</b>

(With Deloitte & Touche audit report dated August 8, 2008)

# FORTUNE ELECTRIC CO., LTD.

## STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
<b>OPERATING REVENUE</b>				
Sales	\$ 3,049,153	88	\$ 2,611,182	84
Sales returns and allowances	2,182	-	3,572	-
Net sales	<u>3,046,971</u>	<u>88</u>	<u>2,607,610</u>	<u>84</u>
Construction revenues	<u>433,619</u>	<u>12</u>	<u>498,705</u>	<u>16</u>
Net operating revenues	<u>3,480,590</u>	<u>100</u>	<u>3,106,315</u>	<u>100</u>
<b>OPERATING COST</b>				
Cost of sales	2,292,064	66	1,863,880	60
Cost of construction	<u>391,284</u>	<u>11</u>	<u>499,800</u>	<u>16</u>
Total operating costs	<u>2,683,348</u>	<u>77</u>	<u>2,363,680</u>	<u>76</u>
GROSS PROFIT	<u>797,242</u>	<u>23</u>	<u>742,635</u>	<u>24</u>
<b>OPERATING EXPENSES</b>				
Selling	244,209	7	142,837	5
General and administrative	69,734	2	38,762	1
Research and development	<u>27,440</u>	<u>1</u>	<u>32,047</u>	<u>1</u>
Total operating expenses	<u>341,383</u>	<u>10</u>	<u>213,646</u>	<u>7</u>
OPERATING INCOME	<u>455,859</u>	<u>13</u>	<u>528,989</u>	<u>17</u>
<b>NON-OPERATING INCOME AND GAINS</b>				
Investment gain recognized under the equity method	4,295	-	11,836	1
Scrap revenue	12,520	1	7,337	-
Foreign-currency exchange gain, net	13,375	1	-	-
Indemnification revenue	1,268	-	4,276	-
Service revenue	-	-	1,264	-
Reversal of provision for inventory valuation	1,279	-	-	-
Valuation gain on financial assets	3,157	-	16,068	1
Other	<u>8,786</u>	<u>-</u>	<u>9,913</u>	<u>-</u>
Total non-operating income and gains	<u>44,680</u>	<u>2</u>	<u>50,694</u>	<u>2</u>
<b>NON-OPERATING EXPENSES AND LOSSES</b>				
Interest	25,754	1	24,549	1
Loss on disposal of properties	898	-	-	-
Loss on inventory obsolescence	242	-	18,138	1
Foreign - currency exchange loss, net	-	-	13,370	-
Loss on decline in value of inventories	-	-	2,155	-
Other	<u>3,459</u>	<u>-</u>	<u>3,915</u>	<u>-</u>
Total non-operating expenses and losses	<u>30,353</u>	<u>1</u>	<u>62,127</u>	<u>2</u>
INCOME BEFORE INCOME TAX	470,186	14	517,556	17
INCOME TAX EXPENSE	<u>91,373</u>	<u>3</u>	<u>98,119</u>	<u>3</u>
NET INCOME	<u>\$ 378,813</u>	<u>11</u>	<u>\$ 419,437</u>	<u>14</u>

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# FORTUNE ELECTRIC CO., LTD.

## STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

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	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE	<u>\$ 2.29</u>	<u>\$ 1.84</u>	<u>\$ 2.52</u>	<u>\$ 2.04</u>
DILUTED EARNING PER SHARE	<u>\$ 2.28</u>	<u>\$ 1.83</u>		

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

	2007	
	Before Income Tax	After Income Tax
NET INCOME	<u>\$ 528,013</u>	<u>\$ 429,894</u>
BASIC EARNINGS PER SHARE	<u>\$ 2.56</u>	<u>\$ 2.09</u>

(With Deloitte & Touche audit report dated August 8, 2008)

(Concluded)

# FORTUNE ELECTRIC CO., LTD.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	Capital Stock Issued		Reserve for Raising Capital	Paid-in Capital		Retained Earnings				Cumulative Translation Adjustments	Unrecognized Pension Cost, Contra Equity Account, Charge to Stockholders' Equity	Total Others			Total Stockholders' Equity		
	Shares (Thousand)	Amount		Excess of Par Value	Treasury Stock Transaction	Total	Legal Reserve	Special Reserve	Unappropriat ed Earnings			Total	Unrealized Losses on Financial Instruments	Revaluation Increment on Properties		Treasury Stock	Total
BALANCE, JANUARY 1, 2008	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
Appropriations of prior years' earnings																	
Legal reserve	-	-	-	-	-	-	65,982	-	(65,982)	-	-	-	-	-	-	-	-
Stock dividends - 5%	-	-	102,951	-	-	-	-	-	(102,951)	(102,951)	-	-	-	-	-	-	-
Cash dividends - \$2 per share	-	-	-	-	-	-	-	-	(411,805)	(411,805)	-	-	-	-	-	-	(411,805)
Bonus to employees	-	-	-	-	-	-	-	-	(45,503)	(45,503)	-	-	-	-	-	-	(45,503)
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	(8,532)	(8,532)	-	-	-	-	-	-	(8,532)
Net income for the six months then ended June 30, 2008	-	-	-	-	-	-	-	-	378,813	378,813	-	-	-	-	-	-	378,813
Unrealized gains on hedge derivative financial assets	-	-	-	-	-	-	-	-	-	-	-	-	9,758	-	-	9,758	9,758
Unrealized gains on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-	5,785	-	-	5,785	5,785
Cumulative transaction adjustments on long-term investments	-	-	-	-	-	-	-	-	-	-	80	-	-	-	-	80	80
<b>BALANCE, JUNE 30, 2008</b>	<b>205,902</b>	<b>\$2,059,024</b>	<b>\$ 102,951</b>	<b>\$ 3,525</b>	<b>\$ 23,613</b>	<b>\$ 27,138</b>	<b>\$ 101,770</b>	<b>\$ -</b>	<b>\$ 404,466</b>	<b>\$ 506,236</b>	<b>\$ (2,063)</b>	<b>\$ (59,823)</b>	<b>\$ 12,182</b>	<b>\$ 66,026</b>	<b>\$ -</b>	<b>\$ 16,322</b>	<b>\$2,711,671</b>
BALANCE, JANUARY 1, 2007	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
Special reserve	-	-	-	-	-	-	-	(93,696)	93,696	-	-	-	-	-	-	-	-
Appropriations of prior years' earnings																	
Legal reserve	-	-	-	-	-	-	22,120	-	(22,120)	-	-	-	-	-	-	-	-
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 six months then ended June 30, 2007	-	-	-	-	-	-	-	-	419,457	419,457	-	-	-	-	-	-	419,457
Unrealized gains on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-	2,576	-	-	2,576	2,576
Unrealized losses on hedge derivative financial assets	-	-	-	-	-	-	-	-	-	-	-	-	(27,318)	-	-	(27,318)	(27,318)
Treasury stock transaction	-	-	-	-	4,893	4,893	-	-	-	-	-	-	-	-	16,209	16,209	21,102
Cumulative transaction on long-term investments	-	-	-	-	-	-	-	-	-	-	1,044	-	-	-	-	1,044	1,044
<b>BALANCE, JUNE 30, 2007</b>	<b>205,902</b>	<b>\$2,059,024</b>	<b>\$ -</b>	<b>\$ 3,525</b>	<b>\$ 6,314</b>	<b>\$ 9,839</b>	<b>\$ 35,788</b>	<b>\$ -</b>	<b>\$ 420,068</b>	<b>\$ 455,856</b>	<b>\$ (3,132)</b>	<b>\$ (58,659)</b>	<b>\$ (929)</b>	<b>\$ 66,026</b>	<b>\$ (5,412)</b>	<b>\$ (2,106)</b>	<b>\$2,522,613</b>

(With Deloitte & Touche audit report dated August 8, 2008)

# FORTUNE ELECTRIC CO., LTD.

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Expressed in Thousands of New Taiwan Dollars)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 378,813	\$ 419,457
Depreciation and amortization	48,858	46,865
Valuation gain on financial assets	(3,157)	(16,068)
Provision (reversal) for bad debt	4,001	(27,765)
Loss on inventory obsolescence	242	18,138
Allowance (reversal) for inventory valuation	(1,279)	2,155
Investment gain recognized under the equity method	(4,295)	(11,836)
Net loss (gain) on sale of properties	624	(363)
Loss on disposal of properties	192	670
Provision for pension liabilities	6,990	5,745
Deferred income tax	14,219	(195)
Changes in operating assets and liabilities		
Hedge derivative financial assets - current	9,810	(2,448)
Notes receivable	81,021	(10,026)
Accounts receivable	(302,777)	(404,607)
Other financial assets - current	11,744	27,933
Inventories	(240,150)	(208,093)
Construction in process	(128,411)	107,738
Prepayments	(97,240)	(214,092)
Other current assets	(12,400)	17,101
Notes payable	-	(211)
Accounts payable	202,832	144,108
Income tax payable	(30,122)	54,137
Accrued expenses	(23,713)	18,031
Construction payable	17,646	(28,211)
Customers' advances	(147,355)	70,197
Construction advances	(221,761)	(102,858)
Other current liabilities	<u>(4,356)</u>	<u>4,139</u>
Net cash used in operating activities	<u>(440,024)</u>	<u>(90,359)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in financial assets at fair value through profit or loss - current	3,122	682
Increase in long-term investments accounted for using equity method	(46,855)	-
Repayment from liquidated investee	32,856	8,287
Acquisition of properties	(43,069)	(18,641)
Proceeds from sale of properties	1,317	595
Decrease in other assets	<u>(15,752)</u>	<u>(10,191)</u>
Net cash used in investing activities	<u>(68,381)</u>	<u>(19,268)</u>

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# FORTUNE ELECTRIC CO., LTD.

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (Expressed in Thousands of New Taiwan Dollars)

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	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term debts	\$ 72,546	\$ 169,015
Increase (decrease) in short-term negotiable instruments payable	479,774	(147,085)
Increase (decrease) in long-term debts	(55,000)	95,000
Increase in guarantee deposits received	<u>152</u>	<u>-</u>
Net cash provided by financing activities	<u>497,472</u>	<u>116,930</u>
NET INCREASE (DECREASE) IN CASH	(10,933)	7,303
CASH, BEGINNING OF PERIOD	<u>40,572</u>	<u>24,696</u>
CASH, END OF PERIOD	<u>\$ 29,639</u>	<u>\$ 31,999</u>
SUPPLEMENTARY INFORMATION		
Interest paid	<u>\$ 26,422</u>	<u>\$ 21,858</u>
Income tax paid	<u>\$ 107,276</u>	<u>\$ 44,177</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Transfer inventories to properties	<u>\$ 714</u>	<u>\$ 8,794</u>
Receivable from liquidated investee	<u>\$ 29,715</u>	<u>\$ 2,522</u>
Current portion of long-term debts	<u>\$ 101,667</u>	<u>\$ 130,000</u>
Dividends payable	<u>\$ 411,805</u>	<u>\$ 265,614</u>
Bonus to employee	<u>\$ 45,503</u>	<u>\$ 23,480</u>
Bonus to directors and supervisors	<u>\$ 8,532</u>	<u>\$ 4,402</u>

(With Deloitte & Touche audit report dated August 8, 2008)

(Concluded)