Test-Rite International Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Test-Rite International Co., Ltd.

We have audited the accompanying consolidated balance sheets of Test-Rite International Co., Ltd. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended (all expressed in thousands of New Taiwan dollars). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of their operations and their 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.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments Recognition and Measurement," SFAS No. 36 "Financial Instruments Disclosure and Presentation" and related amendments to other SFASs.

April 2, 2007

<u>*Notice to Readers*</u>

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated 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. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

ASSETS	2006 Amount	%	2005 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 1,244,524	6	$ 1,522,517	9
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	626,479	3	890,768	5
Available-for-sale financial assets, current (Notes 2 and 6)	9,417	-	-	-
Financial assets carried at cost, current (Notes 2 and 7)	3,325	-	-	-
Notes receivable (Notes 2 and 8)	49,785	-	47,978	-
Accounts receivable (Notes 2 and 8)	2,023,982	10	1,897,618	11
Other receivables (Note 9)	242,980	1	387,819	2
Other financial assets, current (Note 10)	15,265	-	17,126	-
Inventories (Notes 2 and 11)	4,240,723	21	3,854,362	22
Prepayments	893,993	4	1,016,587	6
Other current assets	214,840	1	247,726	2
Total current assets	9,565,313	46	9,882,501	57
LONG-TERM INVESTMENTS				
Long-term equity investments at equity method (Note 12)	42,877	-	46,759	-
Investments in real estate (Note 13)	14,680	-	14,780	-
Prepayment for long-term investments (Note 1)	15,808	-	-	-
Available-for-sale financial assets, noncurrent (Note 14)	68,000	1	-	-
Holding to maturity financial assets, noncurrent (Note 15)	21,461	-	24,070	-
Financial assets carried at cost, noncurrent (Note 16)	180,496	1	133,975	1
Bond investments without active market, noncurrent (Note 17)	30,000	-	31,000	-
Total long-term investments	373,322	2	250,584	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 18)				
Cost				
Land	1,000,611	5	773,813	5
Buildings and improvements	2,294,934	11	1,614,847	9
Machinery and equipment	1,347,090	7	818,789	5
Transportation equipment	91,776	-	61,710	-
Other equipment	6,751,513	33	5,138,209	29
Total cost	11,485,924	56	8,407,368	48
Revaluation increments	104,515	-	-	-
Less accumulated depreciation	(4,346,037)	(21)	(2,749,723)	(16)
Prepayments for property, plant and equipment	222,185	1	332,393	2
Property, plant and equipment, net	7,466,587	36	5,990,038	34
INTANGIBLE ASSETS				
Goodwill (Note 2)	1,407,309	7	48,584	-
OTHER ASSETS (Notes 2 and 19)				
Refundable deposits	728,512	3	610,029	4
Deferred income tax assets noncurrent	548,892	3	323,339	2
Other assets - other	586,422	3	388,405	2
Total other assets	1,863,826	9	1,321,773	8
TOTAL	$ 20,676,357	100	$ 17,493,480	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2006 Amount	%	2005 Amount	%
CURRENT LIABILITIES				
Short-term bank borrowings (Note 20)	$ 4,040,459	19	$ 3,433,147	20
Short-term obligations (Note 21)	60,000	-	30,000	-
Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	14,182	-	18,688	-
Notes payable	118,033	1	111,110	1
Accounts payable	3,229,716	16	2,641,078	15
Income tax payable (Notes 2 and 32)	311,232	1	198,554	1
Other payables (Note 22)	837,235	4	1,184,069	7
Advance receipt	207,449	1	218,811	1
Current portion of long-term liabilities (Note 23)	398,540	2	595,707	3
Other current liabilities (Note 24)	343,617	2	191,382	1
Total current liabilities	9,560,463	46	8,622,546	49
LONG-TERM LIABILITIES				
Bonds payable (Note 25)	-	-	-	-
Long-term debt (Note 26)	2,686,400	13	1,716,400	10
Total long-term liabilities	2,686,400	13	1,716,400	10
ESTIMATED ACCRUED LAND VALUE INCREMENTAL TAX PAYABLE	36,740	-	-	-
OTHER LIABILITIES				
Other	287,331	2	168,681	1
Total liabilities	12,570,934	61	10,507,627	60
STOCKHOLDERS' EQUITY				
Capital stock (Note 28)	4,488,130	22	4,167,176	24
Capital surplus				
Additional paid-in capital	519,609	3	514,635	3
Treasury stock	35,041	-	10,741	-
Long-term investments	45,997	-	-	-
Retained earnings (Note 29)				
Legal reserve	569,337	3	496,587	3
Unappropriated earnings	524,756	2	895,100	5
Cumulative translation adjustments (Note 2)	22,338	-	24,570	-
Net loss not recognized as pension costs	16	-	-	-
Unrealized holding loss on available-for-sale financial asset	(782)	-	-	-
Treasury stock (Notes 2 and 30)	(364,159)	(2)	(546,510)	(3)
	5,840,283	28	5,562,299	32
MINORITY INTEREST	2,265,140	11	1,423,554	8
Total stockholders' equity	8,105,423	39	6,985,853	40
TOTAL	$ 20,676,357	100	$ 17,493,480	100

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

(With Deloitte & Touche audit report dated April 2, 2007)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Note 2)	$ 34,056,205	100	$ 34,478,139	100
OPERATING COST	25,109,552	74	25,925,555	75
GROSS PROFIT	8,946,653	26	8,552,584	25
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,659,394	22	7,250,523	21
INCOME FROM OPERATIONS	1,287,259	4	1,302,061	4
NON-OPERATING INCOME				
Interest income	40,337	-	28,707	-
Equity in net earnings of investees (Notes 2 and 12)	-	-	4,364	-
Dividends income	3,896	-	-	-
Net gain on sale of investments	99,730	-	93,625	-
Gain on disposal of property, plant and equipment	3,844	-	5,768	-
Recovery of provision for inventory devaluation	30,538	-	-	-
Gain on valuation of financial assets	1,188	-	247,356	1
Others	137,321	1	304,684	1
Total non-operating income	316,854	1	684,504	2
NON-OPERATING EXPENSES				
Interest expenses	420,482	1	306,670	1
Equity in net losses of investees (Notes 2 and 12)	3,770	-	-	-
Other losses from investments	-	-	77,350	-
Loss from inventory devaluation	-	-	83,288	-
Exchange losses, net	34,110	-	182,237	1
Loss on disposal of property, plant and equipment	8,559	-	3,578	-
Loss on valuation of financial liabilities	1,438	-	-	-
Others	253,762	1	78,674	-
Total non-operating expenses	722,121	2	731,797	2
INCOME BEFORE INCOME TAX	881,992	3	1,254,768	4
PROVISION FOR INCOME TAX (Notes 2 and 32)	(234,541)	(1)	(313,534)	(1)

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE	$ 647,451	2	$ 941,234	3
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE (Note 3) (Net of income tax benefit of $4,957 thousand)	(13,072)	-	-	-
TOTAL CONSOLIDATED NET INCOME	$ 634,379	2	$ 941,234	3
ATTRIBUTED TO				
Parent company's stockholders	425,301	1	727,497	2
Minority interest	209,078	1	213,737	1
	$ 634,379	2	$ 941,234	3

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
BASIC EARNINGS PER SHARE (Notes 2 and 28)				
Income before cumulative effect of changes in accounting principle	$ 2.10	$ 1.54	$ 3.08	$ 2.31
Cumulative effect of changes in accounting principle		(0.03)		-
Basic earnings per share before distribution to minority interest		$ 1.51		$ 2.31
Basic earnings per share attributed to parent company stockholders		$ 1.02		$ 1.78
DILUTED EARNINGS PER SHARE (Notes 2 and 28)				
Income before cumulative effect of changes in accounting principle	$ 2.09	$ 1.53	$ 3.01	$ 2.26
Cumulative effect of changes in accounting principle		(0.03)		-
Diluted earnings per share before distribution to minority interest		$ 1.50		$ 2.26
Diluted earnings per share attributed to parent company stockholders		$ 1.01		$ 1.75

(Concluded)

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

(With Deloitte & Touche audit report dated April 2, 2007)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

		Capital Surplus			Retained Earnings							
	Capital Stock	Additional Paid-in Capital	Treasury Stock	Long-term Investments	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Costs	Unrealized Holding Loss on Available-for-Sale Financial Assets	Treasury Stock	Minority Interest	Total
BALANCE, JANUARY 1, 2005	$ 3,973,113	$ 494,007	$ 10,703	$ -	$ 413,748	$ 1,065,199	$ 23,624	$ -	$ -	$ (546,510)	$ 416,083	$ 5,849,967
Appropriation and distribution of 2004 net income (Note 28)												
Legal reserve	-	-	-	-	82,839	(82,839)	-	-	-	-	-	-
Cash bonuses to directors and supervisors	-	-	-	-	-	(14,911)	-	-	-	-	-	(14,911)
Stock bonuses to employees	59,640	-	-	-	-	(59,644)	-	-	-	-	-	(4)
Stock dividends	73,589	-	-	-	-	(73,589)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(662,304)	-	-	-	-	-	(662,304)
Effect of changes of ownership interests in equity method investees	-	-	-	-	-	(4,309)	-	-	-	-	-	(4,309)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	946	-	-	-	-	946
Convertible bonds converted into common stock	60,834	20,628	-	-	-	-	-	-	-	-	-	81,462
Cash dividends of intercompany stockholding	-	-	38	-	-	-	-	-	-	-	-	38
Minority interest	-	-	-	-	-	-	-	-	-	-	793,734	793,734
Total consolidated income for 2005	-	-	-	-	-	727,497	-	-	-	-	213,737	941,234
BALANCE, DECEMBER 31, 2005	4,167,176	514,635	10,741	-	496,587	895,100	24,570	-	-	(546,510)	1,423,554	6,985,853
Appropriation and distribution of 2005 net income (Note 28)												
Legal reserve	-	-	-	-	72,750	(72,750)	-	-	-	-	-	-
Cash bonuses to directors and supervisors	-	-	-	-	-	(13,095)	-	-	-	-	-	(13,095)
Stock bonuses to employees	52,370	-	-	-	-	(52,380)	-	-	-	-	-	(10)
Stock dividends	193,359	-	-	-	-	(193,359)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(464,061)	-	-	-	-	-	(464,061)
Effect of changes of ownership interests in equity method investees	-	-	-	45,997	-	-	-	-	-	-	-	45,997
Cumulative translation adjustments on long-term equity investments	-	-	-	-	-	-	(2,232)	-	-	-	-	(2,232)
Net loss not recognized as pension costs	-	-	-	-	-	-	-	16	-	-	-	16
Equity adjustments from the first adoption of new financial accounting standards (Notes 3 and 6)	-	-	-	-	-	-	-	-	13	-	1,817	1,830
Unrealized valuation profit or loss of available-for-sale financial assets, current (Note 6)	-	-	-	-	-	-	-	-	12	-	1,782	1,794
Unrealized valuation profit or loss of available-for-sale financial assets, noncurrent (Note 14)	-	-	-	-	-	-	-	-	(807)	-	-	(807)
Convertible bonds converted into common stock (Note 28)	75,225	4,974	-	-	-	-	-	-	-	-	-	80,199
Changes in shares held by subsidiaries (Note 30)	-	-	-	-	-	-	-	-	-	272	-	272
Treasury stock transferred to employees (Note 30)	-	-	24,300	-	-	-	-	-	-	182,079	-	206,379
Minority interest	-	-	-	-	-	-	-	-	-	-	628,909	628,909
Total consolidated income for 2006	-	-	-	-	-	425,301	-	-	-	-	209,078	634,379
BALANCE, DECEMBER 31, 2006	$ 4,488,130	$ 519,609	$ 35,041	$ 45,997	$ 569,337	$ 524,756	$ 22,338	$ 16	$ (782)	$ (364,159)	$ 2,265,140	$ 8,105,423

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

(With Deloitte & Touche audit report dated April 2, 2007)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Total consolidated net income	$ 634,379	$ 941,234
Cumulative effect of changes in accounting principles	18,029	-
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	843,586	644,752
Amortization for the cost of issuing bonds and unrealized interest expenditure	2,060	3,401
Gain on financial assets valuation	(1,188)	(190)
Loss on financial liabilities valuation	1,438	-
Permanent decline in value of financial assets carried at cost, noncurrent	-	64,670
Loss on decreased capital stock of financial assets carried at cost, noncurrent	-	15,177
(Recovery from) provision for inventory devaluation	(30,538)	83,288
Equity in net losses (earnings) of investees	3,770	(4,364)
Gains on disposal of available-for-sale financial assets, noncurrent	(42,741)	-
Net gains on disposal of long-term equity investments	(15,783)	(79,496)
Exchange loss of financial assets carried at cost, noncurrent	-	2,103
Net loss (gains) on disposal of property, plant and equipment	4,728	(2,190)
Loss on abandoned property, plant and equipment and deferred charges	53	120
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	264,705	132,089
Financial assets carried at cost, current	(3,325)	-
Available-for-sale financial assets, current	(5,793)	-
Notes receivable	(1,807)	531
Notes receivable from affiliates	-	10,877
Accounts receivable	162,069	(598,483)
Accounts receivable from affiliates	-	1,364,701
Other receivables	144,839	(144,859)
Other financial assets, current	(3,039)	23,120
Inventories	225,845	358,580
Prepayments	122,594	(687,460)
Deferred income tax assets, current	(15,671)	30,849
Other current assets	72,129	(123,953)
Deferred income tax assets, noncurrent	(225,553)	(155,517)
Other assets	741,171	(108,044)
Financial liabilities at fair value through profit or loss, current	(7,418)	-
Notes payable	6,923	8,819
Accounts payable	359,396	1,357,217
Income tax payable	112,678	2,770
Other payables	(159,293)	358,968
Advance receipt	(11,362)	(70,157)
Other current liabilities	84,411	125,873
Interest expense compensation payable	3,032	5,453
Deferred income tax liabilities, noncurrent	(27,584)	27,584
Other liabilities	(12,173)	103,655
Net cash provided by operating activities	3,244,567	3,691,118

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TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in financing deposit	$ 4,900	$ (6,775)
Decrease in futures deposits	-	1,507
Proceeds from decrease in capital stock of financial assets carried at cost, noncurrent	330	500
Increase in prepayment for long-term investments	(15,808)	-
Proceeds from disposal of available-for-sale financial assets, noncurrent	315,808	-
Increase in holding to maturity financial assets, noncurrent	2,609	-
Increase in available-for-sale financial assets	(341,874)	-
Decrease in financial assets carried at cost, noncurrent	153	-
Proceeds from disposal of bond investments without active market	1,000	218,176
Acquisition of property, plant and equipment	(1,578,420)	(846,846)
Proceeds from disposal of property, plant and equipment	36,343	2,993
Increase in refundable deposits	(118,483)	(421,008)
Increase in deferred charges	(856,020)	(135,757)
Net cash used in investing activities	(2,549,462)	(1,187,210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term bank borrowings	457,312	2,797,810
Increase in short-term obligations	30,000	10,000
Increase in long-term debt	1,290,000	493,334
Payment for bonds payable	(440,000)	-
Payments for bonuses to directors, supervisors and employee	(13,095)	(14,911)
Payment for cash dividend	(464,061)	(662,266)
Decrease in deposits received	(15,281)	(19,080)
Treasury stock transferred to employees	206,379	-
(Decrease) increase in minority interest	(191,528)	789,425
Net cash provided by financing activities	859,726	3,394,312
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,253)	(202)
NET CASH USED IN PURCHASE SHARES OF TONG LONG METAL INDUSTRY CO., LTD.	(1,830,571)	-
EFFECT OF THE FIRST TIME CONSOLIDATION OF SUBSIDIARIES	-	(5,138,314)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(277,993)	759,704
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,522,517	762,813
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,244,524	$ 1,522,517

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TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest	$ 307,965	$ 150,354
Income tax	$ 467,398	$ 501,450
Cash paid during the year for acquisition of property, plant and equipment		
Property, plant and equipment acquired	$ 1,390,869	$ 1,078,651
Add liabilities for acquisition of property, plant and equipment at beginning of year	233,390	1,585
Deduct liabilities for acquisition of property, plant and equipment at end of year	(45,839)	(233,390)
Cash paid during the period for acquisition of property, plant and equipment	$ 1,578,420	$ 846,846
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Translation adjustments on long-term equity investments	$ (2,232)	$ 946
Transfer of long-term equity investments to deferred credits	$ 133	$ -
Equity adjustment from the first adoption of new financial accounting standards	$ 13	$ -
Changes in percentage of ownership of equity held by subsidiaries	$ 272	$ -
Effect on changes in percentage of ownership interest of equity method investees	$ 45,997	$ (4,309)
Net loss not recognized as pension costs	$ 16	$ -
Bonuses to employees	$ 10	$ 4
Convertible bonds converted into common stock	$ 80,199	$ 81,462
Current portion of bonds payable	$ 48,540	$ 565,707
Current portion of long-term liabilities	$ 350,000	$ 30,000
Unrealized holding loss on available-for-sale financial assets	$ (795)	$ -
Net Cash used in purchase shares of Tong Long Metal Industry Co., Ltd.		
Cash	$ 189,941	
Notes and accounts receivable	288,433	
Inventory	581,668	
Other current assets	23,572	
Fund and long-term investments	47,004	
Property, plant and equipment	851,438	
Other assets	205,136	
Notes and accounts payable	(229,242)	
Short-term bank borrowings	(150,000)	
Other current liabilities	(95,408)	
Other liabilities	(182,993)	
Minority interest	(866,706)	
Goodwill	1,357,669	
Fair value of Tong Long Metal Industry Co., Ltd.	2,020,512	
Cash balance held by Tong Long Metal Industry Co., Ltd.	(189,941)	
Net cash used in purchase shares of Tong Long Metal Industry Co., Ltd.	$ 1,830,571	

(Concluded)

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

(With Deloitte & Touche audit report dated April 2, 2007)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Information of Parent Company

Test-Rite International Co., Ltd. ("Test-Rite") was established in August 1978 with an initial capital of $2,000 thousand.

Test-Rite is engaged mainly in the import and export of hand tools, auto parts, machinery, furniture, and various home appliances. Test-Rite's marketplaces are primarily located in the United States of America, Canada, Great Britain, France, Germany, Australia, etc.

The Taiwan Securities and Futures Commission approved in February 1993 Test-Rite's application for stock listing in the Taiwan Stock Exchange.

Information of Subsidiaries

Subsidiaries	Relationship with Parent Company	Main Business	Effective Holding (%)	Reasons for not Including in the Consolidated Financial Statement in 2005 and 2006
Fortune Miles Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Fortune Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Star Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Investment (B.V.I.) Co., Ltd.	Directly held 100.00%	Investment in various industries	100.00	Included
Test-Rite Retailing Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
B&S Link Co., Ltd. (Cayman)	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Trading Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Pte Ltd.	Directly held 100.00%	Importation and exportation	100.00	Included
Test-Rite Product (Hong Kong) Ltd.	Directly held 100.00%	Importation and exportation	100.00	Included
TRS Investment Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Lih Chiou Co., Ltd.	Directly held 100.00%	International trade	100.00	Included
Lih Teh International Co., Ltd.	Directly held 100.00%	Integrating data and providing information	100.00	Included
B&S Link Co., Ltd.	Directly held 100.00%	Providing information software and electronic information	100.00	Included
Fusion International Distribution, Inc.	Directly held 100.00%	Importation and exportation	100.00	Included
Chung Cin Enterprise Co., Ltd.	Directly held 100.00%	Authorized builder to build dwelling, rental and sale of building	100.00	Included
Grand System Ltd.	Directly held 100.00%	Investment holding company	100.00	Invest in December 2006
Precision tools Ltd.	Directly held 100.00%	Investment holding company	100.00	Invest in December 2006
Essential Hardware Ltd.	Directly held 100.00%	Investment holding company	100.00	Invest in December 2006
Bright Industry Ltd.	Directly held 100.00%	Investment holding company	100.00	Invest in December 2006
Leading Instruments Ltd.	Directly held 100.00%	Investment holding company	100.00	Invest in December 2006
Blundale Group Ltd.	Remark	Investment holding company	100.00	Remark
Test-Rite Quickbuy Co., Ltd.	Indirectly held 100.00%	Sale of articles for daily use	100.00	Included

Subsidiaries	Relationship with Parent Company	Main Business	Effective Holding (%)	Reasons for not Including in the Consolidated Financial Statement in 2005 and 2006
Chung Cin Interior Design Construction Co., Ltd.	Indirectly held 100.00%	Interior design	100.00	Included
Test Cin M&E Engineering Co., Ltd.	Indirectly held 100.00%	Mechanical and electronic engineering	100.00	Included
Chantey (Shanghai) Investment Consultation Ltd.	Indirectly held 100.00%	Provide consultation of construction	100.00	Included
Tony Construction Co., Ltd.	Indirectly held 100.00%	Build and civil engineering	100.00	Included
Tony Investment Co., Ltd.	Indirectly held 100.00%	Investment in various industries	100.00	Included
Covalue Consultant Co., Ltd.	Indirectly held 80.00%	Consultant of business operation	80.00	Included
Test-Rite Development Co., Ltd.	Directly held 80.00%	Investment holding company	80.00	Included
Homy Homefurnishings Co., Ltd.	Indirectly held 80.00%	Sale of bedclothes	80.00	Included
Homy Homefurnishings (Shanghai) Ltd.	Indirectly held 80.00%	Sale of bedclothes	80.00	Included
Freer Inc.	Indirectly held 79.74%	Sale of bedclothes	79.74	Invest in January 2006
U2 Industry Design Co., Ltd.	Directly held 64.00%	Design new product	64.00	Included
Tong Long Metal Industry Co., Ltd.	Indirectly held 63.08%	The manufacture and sale of (1) various advanced lock, building metals parts and processed plastic goods (2) molding and tool machines and (3) import and export business related to the aforementioned products.	63.08	Invest in December 2006
Hola Homefurnishings Co., Ltd.	Indirectly held 50.89%	Importation and exportation, department store, supermarket and restaurant	50.89	Included
Test-Rite B&Q Co., Ltd.	Controllable investee	Sale of house decoration hardware and construction materials	49.99	Included
B&Q Indoor Decoration & Renovation Co., Ltd.	Test-Rite B&Q held 100.00%	Interior design	49.99	Included
Test-Rite Int'l (U.S.) Co., Ltd.	Controllable investee	Importation and exportation	49.00	Included
Test-Rite Int'l (Thailand) Ltd.	Controllable investee	Importation and exportation	48.99	Included
Test-Rite Int'l (Australia) Pty Ltd.	Controllable investee	Importation and exportation	48.00	Included
Quality Master Co., Ltd.	Directly held 100.00%	Investment in various industries	100.00	In April 2006, Test-Rite lost control of Quality Master

Remark: Blundale Group Ltd. registered in Cayman Islands which holds 4.94% of Tong Long Metal Industry Co., Ltd. (Tong Long Metal) equity, is an Subsidiary of Hong Kong and Shanghai (HK Ltd.) of Hong Kong (HSBC). On December 28, 2006, Test-Rite decided to pay a total amount of $157,225 thousand to HSBC to buy the equity of the Blundale Group Ltd., a price mainly determined by the average of closing listed prices of the previous 5 days and the previous monthly average closing listed price of Tong Long Metal which equals to $42.50 per share of Tong Long Metal's stock. As of December 31, 2006, Test-Rite prepaid $15,808 thousand (10% of the total amount) to HSBC which recorded as prepayment for long-term investments, and the rest $141,417 thousand been paid in February 2007 (See Note 37).

As of December 31, 2006, Test-Rite and subsidiaries (collectively, the “Company”) have 5,950 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared 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, and accounting principles generally accepted in the Republic of China. Under these guidelines, laws and principles, the Company is required to make estimates of allowance for doubtful accounts, allowance for inventory loss, depreciation and impairment, pension cost, contingent loss of lawsuit and allowance for indemnity losses which are based on uncertain circumstances and may have differences with actual circumstances.

For the convenience of readers, the accompanying consolidated 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 financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the “Securities and Futures Commission” before July 1, 2004) for their oversight purposes.

The Company’s significant accounting policies are summarized as follows:

Principle of Consolidation

The accompanying consolidated financial statements include the accounts of Test-Rite and its subsidiaries (see Note 1). All significant intercompany balances and transactions have been eliminated upon consolidation. For the information of subsidiaries and reasons for not including in consolidated financial statements in 2006 and 2005, please see Note 1.

Test-Rite and its subsidiaries adopted SFAS No. 7 “Consolidated Financial Statements”, and included all controllable investees in the consolidated financial statements for 2006 and 2005.

(a) The information of subsidiaries not included in the consolidated financial statements for 2006 and 2005: all subsidiaries were included in consolidation.
(b) The difference of the fiscal period between parent company and subsidiaries: unsuited.
(c) Special risks of business operation for subsidiaries overseas: None.

Current/Noncurrent Assets and Liabilities

Assets consisting of unrestricted cash and cash equivalents, assets for trading purpose and other assets to be converted into cash, sold, or consumed in 12 months or in the normal operating cycle are classified as current. Property, plant and equipment, intangible assets and all other assets are classified as noncurrent. Liabilities for trading purpose and liabilities to be liquidated in 12 months or in the normal operating cycle are classified as current. All other liabilities are classified as noncurrent.

Cash and Cash Equivalents

Cash includes cash on hand and unrestricted bank deposits. Cash equivalents refer to treasury bond, debt obligation, time certificates of deposit and commercial paper which can be readily converted into cash without significant penalty or which value will not be significantly affected by variation of interest.

Financial Instruments at Fair Value through Profit or Loss, Current

Financial instruments at fair value through profit or loss include financial assets and financial liabilities held for trading purpose or upon initial recognition designated by the entity as at fair value through profit or loss. Upon initial recognition, they are recognized at the fair values plus transaction costs. After initial recognition, they are measured at fair values and the changes in the fair values are recognized as the profits or losses.

Derivatives that are not subject to measurement under hedge accounting are classified as financial assets or financial liabilities at fair value through profit or loss. The positive fair values of derivatives are recognized as financial assets; negative fair values are recognized as financial liabilities.

Marketable securities are stated at the closing price at the balance sheet date. The fair value of open-end mutual fund is the published fair value per unit at the balance sheet date. The fair value of financial instruments that do not have a quoted market price in an active market is estimated by valuation method.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on collectibility of accounts.

Factoring Accounts Receivable

According to Statement of Financial Accounting Standards No. 33 “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” a transfer of financial assets (all or a portion of a financial asset) in which the transferor surrenders control over those financial assets shall be accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange.

Inventories

The inventories of trade and retail sale are stated at the lower of cost or market (net realizable value). Cost of inventories is determined using the weighted average method.

The inventories of Tong Long Metal Industry Co., Ltd. are stated at the lower of cost or market. The inventories are accounted at standard cost and at balance sheet date, adjusted to weighted average cost. The basis of market value is replacement cost for raw materials and supplies, and net realizable value for work in process, finished goods and merchandise.

Real estate and Construction in Progress are stated at carrying cost or construction cost by construction project. Interest is capitalized during the construction period.

Constructions in progress and advance construction receipts related to the same construction should be netted. If the netted amount is a debit balance, then it should be recorded in construction in progress, whereas credit balance should be recorded in advance construction receipts.

Long-Term Equity Investments at Equity Method

Investments in companies in which the Company's ownership interest is 20% or more, or where the Company can exercise significant influence, are accounted for using the equity method of accounting.

When equity method of accounting is used, the difference between acquisition cost and equity in net assets on the acquisition date is amortized over a five-year period. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards, the excess of the cost of the investment over the fair value of identifiable net assets, representing goodwill, is no longer amortized, but should be tested for impairment every year and for specific events or changes in circumstances which indicate that such carrying value may not be recoverable.

Additionally, effective January 1, 2006, the unamortized balance of the cost of the investment in excess of the underlying equity in net assets of the investee generated previously is not amortized as goodwill and the unamortized balance of the underlying equity in net assets of the investee in excess of the cost of the investment generated previously is amortized during the remaining period as deferred credits. If the Company does not maintain its percentage ownership interest in an investee after the changes in the investee's capital structure that affect the Company's proportionate interest, the long-term equity investment and capital surplus accounts are adjusted. If the balance of the capital surplus account relating to a long-term equity investment is not sufficient to absorb such an adjustment, any excess is charged against unappropriated retained earnings.

If the Company's share of an investee company's losses equals to or exceeds the carrying amount of an investment accounted for under the equity method and the Company guarantees obligations of an investee company, or is otherwise committed to provide further financial support for an investee company, or an investee company's losses are temporary and there exists sufficient evidence showing imminent return to profitable operations, then the Company continues to recognize investment losses in proportion to the stock ownership percentage. Such credit balance on the book value of long-term equity investments is treated as a liability on the balance sheet.

The cost basis of the securities, which is accounted for under the equity method, is written down to a new cost basis if the decline is judged to be permanent. The amount of nontemporary writedown is accounted for as a realized loss.

Investment in Real Estate

Depreciation of real estate for lease classified under long-term investments is provided over the lease term of 55 years.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial assets. After initial recognition, they are measured at fair value and the changes in fair value of available-for-sale financial assets are recorded as an adjustment to stockholders' equity. When the financial assets are derecognized, the related accumulated fair value changes are recognized in the profit or loss.

Cash dividends are accounted for as reductions of the carrying amount of the investment if they are received in the year of acquisition; otherwise, they are recognized as dividend revenue if received after the year of acquisition. Stock dividends are recorded as an increase in the number of shares and do not affect investment income or the carrying amount of the investment.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence showing that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss.

Holding to Maturity Financial Assets

Holding to maturity financial assets are initially recognized at fair value plus transaction costs.

Financial Assets Carried at Cost

Equity instruments, including unlisted stocks, are measured by the original cost since their fair value cannot be reliably measured. The accounting treatment for dividends received is similar to that for available-for-sale financial assets.

An impairment loss is recognized if there is objective evidence of impairment and the impairment loss can not be reversed.

Bond Investments without Active Market

Bonds investments with fixed or determinable receivable amount without active market were measured at amortized cost similar with held-to-maturity financial assets but the selling time is unrestricted.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of the assets are capitalized. Interest is capitalized during the construction period.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is charged to non-operating income or expenses.

Depreciation is provided using the straight-line method over the estimated service lives prescribed.

Buildings and improvements	35~60 years
Machinery and equipment	2.25~12 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	3~11 years
Leasehold improvements	3~20 years
Molds and tools	2~3 years
Other equipment	3~17 years

An additional service life and a new residual value will be determined for any depreciable asset which is still in use after the end of its prescribed useful life, and the original residual value is depreciated on the straight-line method.

Impairment loss is recognized immediately for any significant decline in the value of property, plant and equipment. If the loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized as gain.

If property, plant and equipment revalued according to regulations show impairment loss, this loss should be recognized as a reduction of the capital surplus - property, plant and equipment revaluation increment. If the impairment loss is greater than this revaluation increment, the difference is recognized as loss. A reversal of an impairment loss on a revalued asset is recognized as the addition to the revaluation increment. However, to the extent that an impairment loss on the same revalued asset was previously recognized as loss, a reversal of the impairment loss on property, plant and equipment revaluation is recognized as gain.

Assets Leased to Others

Leased assets (except land) are stated at cost less accumulated depreciation. Depreciation is calculated on straight-line method over 5~55 years.

Deferred Charges

Deferred charges are amortized on the straight-line method over 2 to 5 years. Issuing costs of bonds are amortized over the term of bonds.

Patents

Patents are amortized on the straight-line method over a five-year period.

Allowance for Indemnity Losses on Export

The indemnity losses on export sales should be estimated and expensed at the time of sale. Allowance for indemnity losses on export is debited when the indemnity losses are paid and indemnity losses paid in excess of the allowance for indemnity losses on export are charged to expense.

Bonds Payable

The bonds payable issued by the Company before December 31, 2005 contain put right. Each holder has the right, at the holder’s option and on specified dates, to require the Company to repurchase all or any portion of such holder’s notes. The interest payable at redemption, which is the amount of agreed put price over face value of such notes, will be recognized as a liability under the interest method from the issue date to the date the put right expires, and according to the put date classified into current or long-term liabilities.

When the holder exercises the conversion right, the net amount of the unamortized issuing costs, accrued interest, accrued interest compensation and face value of convertible notes will be the cost basis of common stock. The difference of the net carrying amount of the convertible notes over the par value of the common stock should be recognized as capital surplus.

Retirement Plan

Test-Rite, Hola, B& S Link, Chung Cin Enterprise, Chung Cin Interior Design Construction, Tony Construction, Test Cin M&E, B&Q and Tong Long Metal have defined benefit pension plan covering all employees. The benefits are based primarily upon an employee's years of service and average compensation for the six-month period before retirement. In accordance with the Labor Standards Law of the Republic of China, such plan is funded at 4% of employee salaries and wages and deposited with the Central Trust of China, except that B&Q and Tong Long Metal are funded at 2% and 7%.

Test-Rite, Hola, B& S Link, Chung Cin Enterprise, Chung Cin Interior Design Construction, Tony Construction, Test Cin M&E, B&Q and Tong Long Metal adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions," which require that pension expense shall be computed at actuarial basis.

The "Labor Pension Act", effective on July 1, 2005, prescribes defined contribution plan. Those employees who were subject to the Labor Standards Law prior to the enforcement of the Act and still work for the Company after the enforcement of this Act may choose to remain to be subject to the pension mechanism under the Labor Standards Law. If they choose to be subject to the pension mechanism under this Act, their seniority prior to the enforcement of this Act shall be maintained. In accordance with the Act, the rate of contribution by an employer to the Labor Pension Fund shall not be less than 6% of the employee's wages per month.

Subsidy Revenue from Government

Tong Long Metal Industry Co., Ltd. applies for subsidy for electric plan from the Institute for Information Industry. The subsidy is reported as deferred income before the result is approved by the Institute for Information Industry and when the result is adopted, the subsidy will be reported as decrease of purchase cost.

Foreign Currency Transactions

Foreign currency transactions are recorded at exchange rates prevailing on transaction dates. Gains or losses, caused by different foreign exchange rates applied when foreign currency assets and liabilities are settled, are credited or charged to non-operating income or expense. Assets and liabilities denominated in foreign currencies are translated at the exchange rates on balance sheet date and any resulting gains or losses are credited or charged to non-operating income or expense.

Foreign non-currency assets and liabilities (e.g., equity instrument) which are measured at fair value shall be revalued at the balance sheet date exchange rates. The related translation adjustment on available-for-sale financial assets is included in stockholders' equity; and the translation adjustment on financial instrument at fair value through profit or loss is recorded in current year's profit or loss. Financial assets carried at cost are measured at historical rate on the transaction dates.

Cumulative Translation Adjustments

Foreign consolidated subsidiaries' and equity-method investee's assets and liabilities denominated in foreign currencies are translated at the balance sheet date exchange rates. Stockholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is carried at the translated amount of the last period. Income statement accounts are translated at the weighted-average rate of the current period. The related translation adjustments are included in stockholders' equity, and upon sale or liquidation of the foreign business, these adjustments are charged to income.

Long-term equity investments denominated in foreign currencies are restated at the balance sheet date exchange rates. The related translation adjustments are reported as a separate component of stockholders' equity.

Treasury Stock

Treasury stock is Test-Rite's own stock acquired according to the Stock Exchange Law. When Test-Rite does not dispose or write off these stocks, their cost is listed as a deduction of stockholders' equity.

Test-Rite adopted the provisions of Statement of Financial Accounting Standards No. 30 "Accounting for Treasury Stock." Test-Rite treats intercompany stockholding as treasury stock.

Income Tax

The Company adopted the provisions of Statement of Financial Accounting Standards No. 22, "Accounting for Income Tax," which require asset and liability approach to financial accounting and reporting for income tax. Deferred income tax assets and liabilities are computed annually for differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

Income tax credits for Hola and Tong Long Metal, such as for purchase of machinery, research and development expenses and training expenses, are recognized as reduction of current income tax expense.

Under the Amended Income Tax Law of ROC, undistributed earnings of holding company from 1998 onward are subject to 10% additional income tax. Such tax is to be reported as income tax expense in the following year when the decision to retain the earnings is made by the stockholders in their meeting.

Earnings Per Share

Basic earnings per common share are calculated by dividing net earnings applicable to common stock by the weighted average number of common stocks outstanding.

On a diluted basis, both net earnings and shares outstanding are adjusted to assume the conversion of convertible bonds from the date of issue.

Sales, Sales Returns and Allowances

Sales are recognized when title of the products and the risks of ownership are transferred to customers, primarily upon shipment. Sales returns and allowances are subtracted from sales as incurred and the related costs of goods sold are eliminated.

Non-Derivative Financial Instruments

The recognition, valuation, and measurement of non-derivative financial assets and liabilities are made in accordance with these accounting policies and generally accepted accounting principles.

3. ACCOUNTING CHANGE

The Company adopted Statement of Financial Accounting Standards No. 35 “Impairment of Assets” from January 1, 2005. This did not have effect on the financial statements for the year ended December 31, 2005.

Effective January 1, 2006, the Company adopted the newly released SFAS No. 34 “Accounting for Financial Instruments,” No. 36, “Disclosure and Presentation of Financial Instruments,” and other related accounting standards which were amended to be in agreement with the new standards.

Effect of the Adoption of the Newly Released and Revised SFAS

The Company properly categorized the financial assets and liabilities (including derivative financial instruments) at the initial adoption of the newly released and amended SFAS. The adjustments to the original carrying amount of financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss are included in the cumulative effect of changes in accounting principle in the income statement; on the other hand, the adjustment to the original carrying amount of available-for-sale financial assets are recognized as adjustments to stockholders’ equity.

The adjustments of the initial adoption of the newly released SFASs are summarized as follows:

	Recognized As Cumulative Effect of Changes in Accounting Principle (After Tax)	Recognized As Adjustment of Stockholders’ Equity
Financial assets at fair value through profit or loss, current	$ (11,966)	$ -
Financial liabilities at fair value through profit or loss, current	(1,106)	-
Available-for-sale financial assets, current	-	1,830
	$ (13,072)	$ 1,830

Reclassifications that Resulted from Adoption of Newly Released and Revised SFAS

According to the explanation of the Accounting Research and Development Foundation, at the initial adoption of SFAS No. 34, certain accounts in the financial statements for the year ended December 31, 2006 should be reclassified to conform with the financial statement presentation as of and for the year ended December 31, 2006. The previously issued financial statements as of and for the year ended December 31, 2005 need not be restated.

Significant accounting policies prior to adoption of newly released and amended SFAS are summarized as follows:

Short-Term Investments

Short-term investments are stated at the lower of cost or market. Cost of short-term investments sold is determined based on the weighted average method. Short selling stocks without hedging is individually valued by lower of cost or market; while short selling stocks with hedging is valued with hedged stock in aggregate. Stock dividends received on marketable equity securities do not represent revenue; instead the stock dividends serve to reduce the cost per share of the investment.

Derivative Financial Instruments

Forward exchange contracts used for trading purposes are recorded at the contracted forward rate on the date the contract was entered into. For contracts open as of the balance sheet date, a gain or loss is computed by multiplying the foreign-currency amount by the difference between the forward rate available for the remaining maturity of the contract and the contracted forward rate.

Receivables or payables from forward foreign currency exchange contracts are shown on the accompanying balance sheets in net balances.

Forward exchange contracts that are designated and effective as a hedge of net foreign assets or liabilities positions are recorded on the respective transaction date. Assets and liabilities denominated in foreign currencies are translated at the balance sheet date exchange rates, and any resulting gains or losses are credited to or charged against current income. The discounts or premium (the differences between the contract rates and the spot rates on the date of purchase multiplied by principal amount of foreign currencies) involved in all forward contracts are separately accounted for and amortized to income over the duration of the contracts.

The premiums to be received or paid on currency options contracts on the exercise or expiry of contracts are deferred and recognized as revenue or expense.

The Company values its unexercised currency option contracts at their fair market value as of balance sheet date in accordance with a new accounting pronouncement effective December 31, 2004.

In the adoption of newly released and amended SFAS, certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the financial statements as of and for the year ended December 31, 2006. The reclassifications are summarized as follows:

	December 31, 2005	
	Before Reclassification	After Reclassification
Balance sheet		
Short-term investment	$ 663,517	$ -
Other financial assets, current	227,251	-
Long-term investments - cost method	133,975	-
Long-term investments - bonds	24,070	-
Long-term investments - others	31,000	-
Other financial assets, noncurrent	811,861	-
Other current liabilities	18,688	-
Financial assets at fair value through profit or loss, current	-	890,768
Holding to maturity financial assets, noncurrent	-	24,070
Financial assets carried at cost, noncurrent	-	133,975
Bond investments without active market, noncurrent	-	31,000
Refundable deposits	-	610,029
Other assets - others	-	201,832
Financial liabilities at fair value through profit or loss, current	-	18,688

	Year Ended December 31, 2005	
	Before Reclassification	After Reclassification
Income statement		
Exchange gain	$ 110,138	$ -
Gain on market price recovery of short-term investment	190	-
Gain on valuation of financial assets	-	247,356
Exchange loss	-	(137,028)

Effective January 1, 2006, the Company adopted amended SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," No. 5, "Long-term Investments under Equity Method," and No. 25, "Business Combinations." The major amendments to the above SFASs require that goodwill shall not be amortized and the difference between the underlying equity in net assets of the investee and the cost of the investment should be analyzed first and the portion attributed to goodwill is not amortized but tested for impairment periodically. The adoption of newly released SFAS increased the income before cumulative effect of change in accounting principle by $20,177 thousand in 2006.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Petty cash	$ 32,649	$ 31,625
Checking deposits	30,105	2,818
Savings deposits	507,836	399,515
Foreign currency deposits	562,736	567,259
Time certificates of deposit	77,457	498,013
Cash equivalents	33,741	23,287
	$1,244,524	$1,522,517

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Financial assets held for trading		
Equity securities marketable on Taiwan Stock Exchange and in the over-the-counter market	$ 17,056	$ 1,165
Open-end funds	549,435	602,993
Open-end mutual funds	30,425	38,656
Offshore mutual funds	16,245	17,569
Receivable on forward contracts, net	47	208,563
Receivable on short selling stock	13,271	18,688
Real estate funds	-	2,000
Stock warrant	-	1,134
	$ 626,479	$ 890,768
Financial liabilities held for trading		
Option	$ 290	$ -
Payable on forward contracts, net	621	-
Payable on short selling stock	13,271	18,688
	$ 14,182	$ 18,688

As of December 31, 2006 and 2005, the short selling in the investment amounted to $13,271 thousand an $18,688 thousand which was included in both the financial assets at fair value through profit or loss, current and the financial liabilities at fair value through profit or loss, current. The deposits of short selling amounted to $12,007 thousand and $16,907 thousand and were included in financing deposits under other financial assets, current (see Note 10).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

Available-for-sale financial assets, current as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Equity securities marketable on Taiwan Stock Exchange and in the over-the-counter market	$ 1,779	$ -
Benefit certificate of domestic funds	4,014	-
	5,793	-
Unrealized holding gain on available-for-sale financial assets	3,624	-
	$ 9,417	$ -

Market values of marketable securities are determined by the closing prices at December 31, 2006. There was $1,794 thousand unrealized valuation profit (attributed to parent company is $12 thousand) and adjustment from the first adoption of newly released and amended SFAS of $1,830 thousand (attributed to parent company is $13 thousand). Total amount attributed to parent of $25 thousand was reported under the stockholders' equity as of December 31, 2006.

7. FINANCIAL ASSETS CARRIED AT COST, CURRENT

Financial assets carried at cost, current as of December 31, 2006 and 2005 consist of the following:

	2006	2005
The funds without active market	$ 3,325	$ -

The investments mentioned do not have open pricing and reliable fair value, thus they are carried at cost.

8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Non-affiliates		
Notes receivable	$ 49,785	$ 47,978
Accounts receivable	2,034,060	1,949,749
Less allowance for doubtful accounts	(10,078)	(52,131)
	2,023,982	1,897,618
	$ 2,073,767	$ 1,945,596

Master Design Inc. ("MDI") and TR Products Corp. ("TR Products"), the subsidiaries of Test-Rite Int'l (U.S.) Co., Ltd., have entered into a factoring agreement with a commercial factor. Under the terms of the agreement, credit risk is transferred to the factor on accounts sold and assigned to the factor. However, factor may charge back to MDI and TR Products for any accounts not paid in full when due for any reason other than credit risk. The terms of the agreement do not stipulate advance of funds to MDI and TR Products prior to the collection of the accounts. However, factor may do so at its discretion upon MDI's and TR Products' requests, subject to additional terms which may be requested.

Test-Rite concluded an accounts receivable factoring agreement with a bank. The agreement declared that Test-Rite should not be responsible for the credit risk of accounts receivable not being collected.

As of December 31, 2006 and 2005, the accounts receivable factoring is summarized as follows:

2006

Object	Interest Rate	Amount of Accounts Receivable Factoring (In Thousands)	Advance from Factor (In Thousands)	Net Amount Due from Factor (In Thousands)
Shanghai Commercial & Saving Bank, Ltd.	Basic loan rate plus 0.4% divided by 94.45%	US$10,375 (About $338,184 thousand)	US$9,000 (About $293,361 thousand)	US$1,375 (About $44,823 thousand)
Hong Kong and Shanghai Banking Corporation Ltd.	LIBOR plus 0.4%	US$1,314 (About $42,831 thousand)	US$1,183 (About $38,546 thousand)	US$131 (About $4,285 thousand)
CIT Group & UPS	JP Morgan basic loan rate minus 0.25% or 3% annually rate	US$14,429 (About $470,328 thousand)	US$12,935 (About $421,629 thousand)	US$1,494 (About $48,699 thousand)

2005

Object	Interest Rate	Amount of Accounts Receivable Factoring (In Thousands)	Advance from Factor (In Thousands)	Net Amount Due from Factor (In Thousands)
Shanghai Commercial & Saving Bank, Ltd.	Basic loan rate plus 0.4% divided by 94.45%	US$ 9,839 (About $323,210 thousand)	US$ 8,821 (About $289,756 thousand)	US$ 1,018 (About $33,454 thousand)
Hong Kong and Shanghai Banking Corporation Ltd.	LIBOR plus 0.4%	US$ 908 (About $29,814 thousand)	US$ 817 (About $26,833 thousand)	US$ 91 (About $2,981 thousand)
CIT Group & UPS	JP Morgan basic loan rate minus 0.25% or 3% annually rate	US$ 14,982 (About $492,159 thousand)	US$ 12,233 (About $401,854 thousand)	US$ 2,749 (About $90,305 thousand)

Net amount due from factor was reported under other receivables (see Note 9).

Test-Rite Int'l (U.S.) concluded accounts receivable financing agreements with Standard Chartered Bank and UPS. The agreements declared that Test-Rite Int'l (U.S.) should not be responsible for the credit risk of accounts receivable not being collected. But if non-credit risk occurred and the accounts receivable were not collected, Standard Chartered Bank and UPS will request Test-Rite Int'l (U.S.) to pay the accounts. To protect their rights, UPS concluded a Domestic Receivable Buyback Agreement with Test-Rite. Test-Rite promises that if non-credit risk occurred and Test-Rite Int'l (U.S.) does not pay to UPS, UPS can request Test-Rite to pay the amounts. As of December 31, 2006, accounts receivable of $266,431 thousand were pledged to secure short-term bank borrowing (see Notes 20 and 35).

Test-Rite Int’l (U.S.) concluded accounts receivable financing agreements with a bank. The agreements declared that Test-Rite Int’l (U.S.) should be responsible for the risk of accounts receivable not being collected. As of December 31, 2005, accounts receivable of $227,800 thousand were pledged to secure short-term bank borrowing (see Notes 20 and 35).

Test-Rite Development concluded accounts receivable financing agreements with a bank. The agreements declared that Test-Rite Development should be responsible for the risk of accounts receivable not being collected. As of December 31, 2006 and 2005, accounts receivable of $45,070 thousand and $125,763 thousand were pledged to secure short-term bank borrowing (see Notes 20 and 35).

9. OTHER RECEIVABLES

Other receivables as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Value-added tax refunds receivables	$ 14,180	$ 6,119
Receivable from disposal of investment	2,652	-
Advances for related parties (see Note 34)	4,275	4,114
Commissions receivables	4,792	7,346
Retention for sales of accounts receivable (see Note 8)	97,806	126,740
Compensation insurance receivables	-	26,948
Others	119,275	216,552
	$ 242,980	$ 387,819

Advances for related parties include amounts related to operating expense payments made by Test-Rite on behalf of its affiliates.

10. OTHER FINANCIAL ASSETS, CURRENT

Other financial assets, current as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Financing deposit (see Note 5)	$ 12,007	$ 16,907
Futures deposit	219	219
Guarantee deposits paid	3,039	-
	$ 15,265	$ 17,126

11. INVENTORIES

Inventories as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Merchandise - retail sale	$ 2,197,701	$ 1,889,380
Merchandise - trade	1,508,476	1,873,906
Raw materials	307,989	-
Work-in-process	228,663	-
Finished goods	40,465	-

	2006	2005
Merchandise - manufacturing	6,141	-
Construction in progress	51,298	149,848
	4,340,733	3,913,134
Less valuation allowance	(100,010)	(58,772)
	$ 4,240,723	$ 3,854,362

Merchandise - retail sale is the inventories of Hola, Freer, B&Q and TR Retailing.

Merchandise - trade is the inventories of Test-Rite, Test-Rite Int'l (U.S.), TR Thailand, TR Australia, TR Development, TR Hong Kong, Test-Rite Pte. Ltd. and TR Trading.

Raw materials, work-in-process, finished goods and Merchandise - manufacturing are the inventories of Tong Long Metal Industry.

Construction in progress is Chung Cin's inventories.

12. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

Long-term equity investments at equity method as of December 31, 2006 and 2005 consist of the following:

	2006			2005	
	Original Accumulated Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
At equity method					
Test-Rite Int'l (Mexico) Ltd.	$ 672	$ 1	49.00	$ 1	49.00
St. Finesse, Inc.	43,200	42,876	30.00	46,758	30.00
	$ 43,872	$ 42,877		$ 46,759	

Equities in (losses) earnings of TR Mexico and St. Finesse for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006	2005
TR Mexico	$ 112	$ (1,287)
St. Finesse	(3,882)	5,651
	$ (3,770)	$ 4,364

TR Mexico is engaged in importation and exportation.

St. Finesse, Inc. is engaged in sale of cigar and wines. As of December 25, 2006, Chung Cin concluded an agreement to sell all of its shares in St. Finesse to the director of Chung Fu Chen Yen Enterprise Corp. on January 9, 2007 (see Note 37).

13. INVESTMENTS IN REAL ESTATE

	2006	2005
Land	$ 10,228	$ 10,228
Buildings and improvement	5,634	5,634
	15,862	15,862
Accumulated depreciation	(1,182)	(1,082)
	$ 14,680	$ 14,780

Real estate investment of Lih Teh has been rented to third parties. The rental income for the years ended December 31, 2006 and 2005 amounted to $832 thousand and $812 thousand which was reported as other revenue.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

	2006	2005
Equity Securities on Taiwan Stock Exchange	$ 68,807	$ -
Unrealized holding loss on available-for-sale financial assets	(807)	-
	$ 68,000	$ -

Equity Securities on Taiwan Stock Exchange were stated at the closing price on December 31, 2006. The unrealized holding loss on available-for-sale financial assets amounted to $807 thousand and reported as a component of stockholders' equity.

15. HOLDING TO MATURITY FINANCIAL ASSETS, NONCURRENT

	2006	2005
Core Pacific - Yamaichi I	$ 14,064	$ 15,964
Core Pacific - Yamaichi II	4,097	4,827
CMS Interest Principal Guaranteed Notes	3,300	3,279
	$ 21,461	$ 24,070

Core Pacific - Yamaichi I bonds were issued with terms from February 16, 2002 to February 15, 2008 with a face value of US$100 thousand and interest rate of 9%. Interest is paid monthly.

Core Pacific - Yamaichi II bonds were issued with terms from February 16, 2002 to March 15, 2010 with a face value of US$100 thousand and interest rate of 9%. Interest is paid monthly.

CMS Interest Principal Guaranteed Notes were issued with terms from December 6, 2004 to December 6, 2019 with a face value of US$100 thousand and interest rate of 10%. Interest is paid monthly.

16. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

	2006			2005	
	Original Accumulated Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Hwa Jan International Co., Ltd. (Samoa)	$ 9,849	$ 9,909	19.00	$ 9,986	19.00
TB Commerce Network Co., Ltd.	31,900	31,900	10.59	31,900	10.59
Grandcathy Venture Capital Co., Ltd.	40,000	40,000	5.00	40,000	5.00
NCTU Springl Technology Capital Co., Ltd.	12,036	12,036	4.69	12,036	4.69
Emit Technology Co., Ltd.	10,842	10,842	4.58	10,842	4.58
Yuan Chuang Co., Ltd.	2,972	2,972	1.67	3,302	1.67
Techgains Pan-Pacific Co., Ltd.	19,191	19,250	1.61	19,326	1.61
Highlight Optoelectronics Inc.	3,713	3,713	0.88	3,713	0.88
Quartz Frequency Technology Co., Ltd.	750	750	0.43	750	0.43
Taiwan Finance Co., Ltd.	2,120	2,120	0.04	2,120	0.04
Nucom International Co., Ltd.	36,400	36,400	2.00	-	-
Hong Da Electronic Co., Ltd.	1,185	1,185	1.00	-	-
China Semiconductor Co., Ltd.	2,596	2,596	1.00	-	-
Yieh United Steel Co., Ltd.	3,920	3,920	-	-	-
Kailay Engineering Co., Ltd.	1,000	1,000	-	-	-
Shanghai Commercial & Saving Bank, Ltd.	1,903	1,903	-	-	-
Test-Rite Int'l (Baparoma) Ltd.	64,670	-	-	-	-
	$ 245,047	$ 180,496		$ 133,975	

The stocks and other investments mentioned above do not have open pricing ad reliable fair value, thus they are carried at cost.

Tong Long Metal recognized impairment loss of $5,100 thousand on Nucom International, Hong Da, Kailay and China Semiconductor.

17. BOND INVESTMENTS WITHOUT ACTIVE MARKET, NONCURRENT

	2006		2005
	Original Accumulated Cost	Carrying Value	Carrying Value
Beneficiary certificates of Credit Lyonnais, Paris	$ 30,000	$ 30,000	$ 31,000

Beneficiary certificates of Credit Lyonnais, Paris: issue period from September 29, 2003 to September 29, 2008; interest is paid annually $5,000 thousand per unit.

18. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2006 and 2005 consist of the following:

	2006				2005
	Original Cost	Revaluation Increments	Accumulated Depreciation	Carrying Value	Carrying Value
Land	$ 1,000,611	$ 104,515	$ -	$ 1,105,126	$ 773,813
Buildings and improvements	2,294,934	-	699,928	1,595,006	1,148,740
Machinery and equipment	1,347,090	-	1,258,819	88,271	323,346
Transportation equipment	91,776	-	46,827	44,949	28,482
Furniture, fixtures and office equipment	575,300	-	205,643	369,657	162,139
Leasehold improvements	5,177,104	-	1,771,578	3,405,526	3,122,213
Molds and tools	72,652	-	62,425	10,227	11,710
Other equipment	926,457	-	300,817	625,640	87,202
Construction in progress and prepayments for property, plant and equipment	222,185	-	-	222,185	332,393
	$11,708,019	$ 104,515	$ 4,346,037	$ 7,466,587	$ 5,990,038

Test-Rite: As of December 31, 2006 and 2005, the cost of the leased-out land was $484,305 thousand and $472,321 thousand and the carrying value of leased-out buildings and improvements was $902,830 thousand and $927,640 thousand, respectively.

Tong Long Metal: As of December 31, 2006, the cost of the leased-out land was $50,777 thousand and the carrying value of leased-out building and improvements was $70,220 thousand.

As of December 31, 2006 and 2005, the carrying value of property, plant and equipment pledged to secure long-term debt and provided as collaterals to bank was as follows (see Notes 26 and 35):

	2006	2005
Land	$566,506	$267,519
Buildings and improvements	196,226	-
	$762,732	$267,519

Revaluation increments are recognized on Tong Long Metal Industry Corp.

19. OTHER ASSETS

Other assets as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Deferred charges (see Note 2)	$ 128,562	$ 104,318
Patents (see Note 2)	287	489
Deferred tax asset, noncurrent (see Note 32)	548,892	323,339
Refundable deposits	728,512	610,029
Prepaid pension cost (see Note 27)	23,428	21,373
Deferred pension cost (see Note 2)	51,920	6,899
Others	382,225	255,326
	$1,863,826	$1,321,773

20. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings as of December 31, 2006 and 2005 consist of the following:

	2006		2005	
	Interest Rate %	Amount	Interest Rate %	Amount
Unsecured loans	1.892~6.23	$2,267,409	4.596~5.140	$ 544,200
Secured loans	1.91~7.361	1,773,050	3.33~7.00	2,888,947
		$4,040,459		$3,433,147

As of December 31, 2006, the amount of $1,567,228 thousand was guaranteed by Test-Rite International Co., Ltd., Tony Ho, Judy Lee and Joyce Sun. The amount of $115,553 thousand was secured by the accounts receivable of TR Int'l (U.S.) Co., Ltd. and $90,269 thousand was secured by the accounts receivable of TR Development Co., Ltd. (see Notes 8 and 35).

As of December 31, 2005, the amount of $2,535,384 thousand was guaranteed by Test-Rite International Co., Ltd., Tony Ho and Judy Lee. The amount of $227,800 thousand was secured by the accounts receivable of TR Int'l (U.S.) Co., Ltd. and $125,763 thousand was secured by the accounts receivable of TR Development Co., Ltd. (see Notes 8 and 35).

21. SHORT-TERM OBLIGATIONS

Short-term obligations as of December 31, 2006 and 2005 consist of the following:

	2006		2005	
	Interest Rate %	Amount	Interest Rate %	Amount
Commercial paper, unsecured	1.33~1.95	$ 60,000	1.25	$ 30,000

22. OTHER PAYABLES

Other payables as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Accrued expenses	$ 641,520	$ 763,037
Interest payable	17,689	30,714
Other notes payable	10,522	72,458
Payables for purchase of property, plant and equipment	45,839	233,390
Others	121,665	84,470
	$ 837,235	$ 1,184,069

23. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as of December 31, 2006 and 2005 consists of the following:

	2006	2005
Bonds payable (see Note 25)	$ 48,540	$ 565,707
Long-term debt (see Note 26)	350,000	30,000
	$ 398,540	$ 595,707

24. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Receipts under custody	$ 18,382	$ 21,067
Accrued VAT payable	25,910	-
Allowance for indemnity losses on exports (see Note 2)	1,354	3,064
Deferred tax liabilities, current (see Note 25)	-	27,584
Others	297,971	139,667
	$ 343,617	$ 191,382

25. BONDS PAYABLE

Bonds payable as of December 31, 2006 and 2005 consist of the following:

	2006	2005
Domestic unsecured bonds (Bond I)	$ -	$ 440,000
Domestic convertible bonds (Bond II)	43,600	116,000
Interest expense compensation payable	4,940	9,707
Less current portion	(48,540)	(565,707)
	$ -	$ -

Domestic Unsecured Bonds

Bonds I

Test-Rite issued $500,000 thousand of secured corporate bonds on February 4, 1999, for the purpose of building warehouse center. The bonds, with a face value of $500,000 thousand, have maturity of $440,000 thousand and $60,000 thousand on February 4, 2006 and February 4, 2002, respectively.

Domestic Convertible Bonds

Bonds II

Test-Rite issued $500,000 thousand of domestic registered convertible bonds on October 9, 2003, for the purpose of investing long-term equity investments, constructing computer system and software and paying unsecured bonds.

Terms and conditions of bonds are outlined as follows:

(a) Date of maturity: October 9, 2008
(b) Interest rate: 0% per annum
(c) Test-Rite can request for redeeming the bonds from three months after issuing date to 40 days before maturity day.
The redemption is outlined as follows:
  (i) The bonds may be redeemed when the closing price of the shares on each of 30 consecutive trading days is over 50% of the conversion price.
  (ii) The bonds may be redeemed when the outstanding bonds are less than 10% of total issued bonds.
(d) Conversion: see conversion terms.
(e) Except as defined above, the bonds will be repaid in full on the maturity date.

Conversion Terms

Bondholders may exercise their redemption right during 30 days before October 9, 2006, October 9, 2007 and October 9, 2008. The redemption price is par value plus 3.5% interest expense compensation.

Bondholders may exercise their conversion right from the day after 30 days of issued day to 10 days before maturity day.

The conversion price was set at $14.40 dollars per share and the conversion price will be adjusted to $9.7 dollars per share at December 31, 2006. The conversion price is subject to adjustment based on changes of Test-Rite's capital account or the market value is lower than the conversion price.

Bondholder may request Test-Rite to redeem the bonds in cash at face value plus the interest premium and interest payable after January 8, 2004. And bondholder may convert the bonds into common stock at any time according to the conversion terms and related laws of ROC. Test-Rite has already recognized the interest-premium as a liability by crediting interest expense compensation payable account.

As of December 31, 2006, Test-Rite's bondholders have converted bonds into 35,122,734 common shares, which resulted in $121,127 thousand additional paid-in capital.

According to the redemption terms, Test-Rite reclassified bonds payable of $48,540 thousand to current portion in 2006 (see Note 23).

26. LONG-TERM DEBT

Long-term debt as of December 31, 2006 and 2005 consists of the following:

	2006		2005
	Interest Rate	Amount	Amount
Taipei Fubon Bank			
Unsecured loan from July 25, 2003 to July 25, 2008. Interest is paid monthly, the first installment on October 25, 2005 and principal due in quarterly. Interest rate is discount rate plus 0.90%.	2.7304	$ 175,000	$ 275,000
Calyon Bank			
Unsecured loan from September 29, 2003 to September 29, 2008. Interest is paid yearly, principal due on September 29, 2008. Interest rate is 2.64%.	2.64	500,000	500,000
Bank Sinopac Co., Ltd.			
Pledged loan from October 28, 2004 to August 28, 2007. Interest is paid monthly, principal due on August 28, 2007. Interest rate is one year deposit rate plus 0.575%.	2.715	261,400	261,400
Shanghai Commercial & Savings Bank			
Unsecured loan from December 8, 2005 to December 8, 2008, the first installment on March 8, 2007 and principal due in quarterly installment. Interest is paid monthly.	2.725	150,000	150,000
Taishin International Bank			
Unsecured loan from December 13, 2005 to December 13, 2008. Interest is paid monthly, principal due on December 13, 2008.	2.601	200,000	200,000
Sunny Bank Ltd.			
Unsecured loan from February 22, 2006 to February 22, 2009, the first installment on February 22, 2007 and principal due in quarterly installment. Interest is paid monthly.	2.57	150,000	-
Ta Chong Bank			
Unsecured loan from December 27, 2006 to January 27, 2008. Interest is paid monthly, principal due on January 27, 2008.	2.5989	600,000	-
Hong Kong and Shanghai Banking Co., Ltd.			
Unsecured loan from December 27, 2006 to September 27, 2011, the first installment on September 25, 2007 and the Company paid 10% in 2007, 15% in 2008, 20% in 2009, 25% in 2010, and 30% in 2011. Interest is paid monthly.	2.818	1,000,000	-
Chiaotung Bank			
Unsecured loan from December 30, 2005 to December 30, 2008. In December 2006, the Company paid the principal in advance of the due date.	Floating	-	150,000

	2006		2005
	Interest Rate	Amount	Amount
East Asia Bank			
Unsecured loan from February 25, 2005 to February 25, 2008. In April 2006, the Company paid the principal in advance of the due date.	2.55~2.56	-	60,000
East Asia Bank			
Unsecured loan from December 14, 2005 to December 14, 2008. In February 2006, the Company paid the principal in advance of the due date.	2.58	-	100,000
Ta Chong Bank			
Unsecured loan from August 25, 2005 to August 25, 2010. In October 2006, the Company paid the principal in advance of the due date.	2.40~2.74	-	50,000
		3,036,400	1,746,400
Less current portion		(350,000)	(30,000)
		$ 2,686,400	$ 1,716,400

See Note 18 for collateral on bank borrowing.

See Note 34 for guarantee on bank borrowing.

27. RETIREMENT PLAN

The “Labor Pension Act”, effective on July 1, 2005, prescribes defined contribution plan. Those employees who were subject to the Labor Standards Law prior to the enforcement of the Act and still work for the Company after the enforcement of this Act may choose to remain to be subject to the pension mechanism under the Labor Standards Law. If they choose to be subject to the pension mechanism under this Act, their seniority prior to the enforcement of this Act shall be maintained. In accordance with the Act, the rate of contribution by an employer to the Labor Pension Fund shall be not less than 6% of the employee’s wages per month.

Test-Rite, Hola, Chung Cin Enterprise, Chung Cin Construction, Tony Construction, Test Cin M&E, B&S Link, B&Q, B&Q Indoor Decoration & Renovation and Tong Long Metal have defined benefit pension plan covering all employees. The benefits are based primarily upon an employee’s years of service and average compensation for the six-month period before retirement.

	2006	2005
Service cost	$ 23,225	$ 20,621
Interest cost	16,880	7,711
Actual return on plan assets	(182)	(37)
Expected return on plan assets	(11,450)	(6,679)
Amortization of net transition asset	(242)	(367)
Amortization of pension loss	15,779	1,085
	$ 44,010	$ 22,334

The following table sets forth the actuarial assumptions and plan's status as of December 31, 2006 and 2005:

	2006	2005
Weighted-average discount rate	2.15%~3.00%	3.00%~3.25%
Expected rate of return on plan assets	2.50%~3.00%	3.00%~3.25%
Assumed rate of increase in salary	1.25%~5.00%	2.50%~5.00%

	2006	2005
Actuarial present value of benefit obligation		
Vested benefits	$ (252,391)	$ (106,072)
Nonvested benefits	(309,932)	(87,776)
Accumulated benefit obligation	(562,323)	(193,848)
Additional benefits at future salaries	(105,670)	(55,738)
Projected benefit obligation	(667,993)	(249,586)
Plan assets at fair value	429,703	202,014
Projected benefit obligation in excess of plan assets	(238,290)	(47,572)
Net transition asset not yet recognized	33,443	(730)
Net pension loss not yet recognized	39,694	43,333
Deferred pension cost	(51,920)	(6,899)
Additional pension liability	81,489	13,073
Accrued pension cost	(1,187)	(2,503)
	(136,771)	(1,298)
Prepaid pension cost assets (included in other assets)	(23,428)	(21,373)
Accrued pension liability (included in other liabilities)	$ (160,199)	$ (22,671)

28. CAPITAL STOCK

Test-Rite's capital stock as of December 31, 2006 and 2005 consists of the following:

	2006	2005
Registered capital		
Share (thousand shares)	550,000	550,000
Par value (in dollars)	$ 10	$ 10
Capital	$ 5,500,000	$ 5,500,000
Issued capital		
Share (thousand shares)	448,813	416,718
Par value (in dollars)	$ 10	$ 10
Capital	$ 4,488,130	$ 4,167,176

Test-Rite's outstanding capital stock as of January 1, 2006, amounted to $4,167,176 thousand. For the year ended December 31, 2006, Test-Rite's bondholders have converted bonds amounting to $73,000 thousand into 7,522,540 common shares amounting to $75,225 thousand. Transferred from the 2005 retained earnings to capital stock were bonuses to employees of $52,370 thousand, and stock dividends of $193,359 thousand, or total of

$245,729 thousand. Consequently, as of December 31, 2006, Test-Rite's capital stock was increased to $4,488,130 thousand consisting of 448,813,033 outstanding common shares having a par value of $10 dollars each.

In their June 9, 2006 and June 14, 2005 meetings, the stockholders decided to distribute retained earnings as follows:

	Distributions of Earnings		Dividends Per Share (In Dollars)	
	2005	2004	2005	2004
Legal reserve	$ 72,750	$ 82,839	$ -	$ -
Cash dividends	464,061	662,304	1.17	1.80
Stock dividends	193,359	73,589	0.49	0.20
Bonuses to employees - stock	52,370	59,640	-	-
Bonuses to director and supervisors - cash	13,095	14,911	-	-

For the years ended December 31, 2006 and 2005, earnings per share is calculated as follows:

	2006						
	Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax	Shares (Denominator)	Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax
Basic earnings per share							
Net income	$ 881,992	$ 647,451	$ 438,373		$ 2.10	$ 1.54	$ 1.05
Cumulative effect of changes in accounting principles		(13,072)	(13,072)			(0.03)	(0.03)
Net income to stockholders of common stock	$ 881,992	$ 634,379	$ 425,301	418,751,077	$ 2.10	$ 1.51	$ 1.02
The effects of dilutive potential ordinary shares Convertible bonds with real interest rate of 3.50%	$ 1,526	$ 1,145	$ 1,145	4,480,987	$ (0.01)	$ (0.01)	$ (0.01)
Diluted earnings per share							
Net income	$ 883,518	$ 648,596	$ 439,518		$ 2.09	$ 1.53	$ 1.04
Cumulative effect of changes in accounting principles		(13,072)	(13,072)			(0.03)	(0.03)
Net income to stockholders of common stock and the effects of potential ordinary shares	$ 883,518	$ 635,524	$ 426,446	423,232,064	$ 2.09	$ 1.50	$ 1.01

	2005						
	Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax	Shares (Denominator)	Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax
Net income	$ 1,254,768	$ 941,234	$ 727,497				
Basic earnings per share							
Net income to stockholders of common stock	$ 1,254,768	$ 941,234	$ 727,497	407,597,313	$ 3.08	$ 2.31	$ 1.78
The effects of dilutive potential ordinary shares Convertible bonds with real interest rate of 3.50%	$ 4,081	$ 3,061	$ 3,061	10,139,130	$ (0.07)	$ (0.03)	$ (0.03)
Diluted earnings per share							
Net income to stockholders of common stock and the effects of potential ordinary shares	$ 1,258,849	$ 944,295	$ 730,558	417,736,443	$ 3.01	$ 2.26	$ 1.75

Earnings per share for the year ended December 31, 2005 was based upon the weighted average number of common shares outstanding during the year after giving retroactive effects to the stock dividends and stock bonuses declared in 2006.

29. RETAINED EARNINGS

According to the Company Law of the Republic of China and Test-Rite's Articles of Incorporation, 10% of Test-Rite's earnings, after paying tax and offsetting deficit, if any, shall first be appropriated as legal reserve. The remaining balance, if any, shall be distributed in the following order:

(a) bonuses to employees - 8%,
(b) bonuses to directors and supervisors - 2%, and
(c) the remainder shall then be allocated in accordance with the resolution of the stockholders in their annual meeting.

Regarding the 2006 retained earnings proposition by the board of directors and the approval at the stockholders' meeting, please refer to the Market Observation Post System ("MOPS") of the Taiwan Stock Exchange.

Test-Rite's board of directors and stockholders in 2006 have proposed and approved the distribution from 2005 earnings of $52,370 thousand as stock bonuses to employees (represents 1.26% of the outstanding common share at the year end of 2004) and of $13,095 thousand as bonuses to directors and supervisors. In 2006, the earnings per share after income tax (before retroactive adjustment for stock dividends in 2006) was $1.90 dollars. However, if the earnings distributions to employees, directors, and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax is $1.73 dollars.

30. TREASURY STOCK

The changes of treasury stock for the year ended December 31, 2006 are summarized as follows (in shares):

Reason	2006.1.1	Increase	Decrease	2006.12.31
Buy the stock back to transfer to employees	30,000,000	-	10,000,000	20,000,000
Shares held by Quality Master	21,916	-	21,916	-
	30,021,916	-	10,021,916	20,000,000

As of June 23, 2006, Test-Rite transferred 10,000,000 shares of treasury stock to employees at $20.70 per share, resulting in additional paid-in capital of $24,300 thousand, which was credited to paid-in capital from treasury stock transactions.

As Test-Rite sold all the equity of Quality Master to related party in April 2006, Quality Master was not a subsidiary of Test-Rite. The stocks, 21,916 shares issued by Test-Rite which are held by Quality Master are not covered by SFAS No. 30 "Accounting for Treasury Stock."

According to the Stock Exchange Law of ROC, the shares of treasury stock should not be over 10% of the Company's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The highest number of shares of treasury stock that holding company held as of December 31, 2006 was 30,000,000 shares and the total amount was $364,159 thousand pursuant to the law.

According to the Stock Exchange Law of ROC, the treasury stock of holding company should not be pledged and does not have the same right as the common stock.

31. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2006 and 2005 are summarized as follows:

Function / Expense Item	2006			2005		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary	$ 565,730	$1,883,047	$2,448,777	$ 32,874	$1,860,169	$1,893,043
Labor/health insurance	25,066	150,234	175,300	2,327	116,771	119,098
Pension	24,825	107,446	132,271	740	61,769	62,509
Other	95,667	312,020	407,687	1,272	147,016	148,288
Depreciation	201,675	523,112	724,787	73,369	471,923	545,292
Amortization	21,694	97,105	118,799	259	99,201	99,460

32. INCOME TAX

The ROC government enacted the Alternative Minimum Tax Act ("AMT Act"), which became effective on January 1, 2006. The alternative minimum tax ("AMT") imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company considers the impact of the AMT Act in the determination of its tax liabilities.

The components of income tax expense for the year ended December 31, 2006 are as follows:

Current income tax expenses	$ 232,335
Estimated 10% income tax on 2005 undistributed earnings	5,583
Deferred tax asset adjustment and change in adjustment of valuation allowance	(11,599)
Adjustment of prior years' tax expenses	3,265
Income tax benefit from cumulative effect of changes in accounting principles	4,957
Income tax expense	$ 234,541

The tax effects of deductible temporary differences that gave rise to deferred tax assets as of December 31, 2006 are as follows:

Losses carryforward	$ 114,312
Investment tax credit	24,818
Others	615,472
	754,602
Less valuation allowance	(161,335)
Net deferred tax assets	593,267
Less deferred tax assets, noncurrent	(548,892)
Deferred tax assets, current	$ 44,375

Current income tax for the year ended December 31, 2006 and income tax payable as of December 31, 2006 are generated as follows:

Current tax expense	$ 234,541
Provision for deferred income tax assets	
Others	140,614
Income tax payable	375,155
Less prepayments and withholdings in 2006	(188,000)
Add income tax payable for the prior years	124,077
Income tax payable as of December 31, 2006	$ 311,232

The reported prepaid income tax and withholdings of $31,461 thousand as of December 31, 2006 were the 2006 and prior year's income tax prepayments.

Losses carryforward as of December 31, 2006 for income tax purposes are as follows:

Year Expired	Amount
2007	$ 1,100
2008	35,320
2009	750
2010	53,178
2011	23,964
	$ 114,312

The Company's investment tax credit as of December 31, 2006 for income tax purposes are as follows:

Year Expired	Amount
2007	$ 411
2008	9,044
2009	6,557
2010	8,365
2011	441
	$ 24,818

The information of Test-Rite about Imputation Credit ("IC") on the undistributed earnings as of December 31, 2005 and 2006 was summarized as follows:

IC on undistributed earnings as of December 31, 2005	$ 124,018
Undistributed earnings in years from 1997 and before	$ 167,601
Undistributed earnings in years from 1998 and after	$ 357,155
Actual IC ratio on distributed earnings in 2005	33.33%
Expected IC ratio on distributed earnings in 2006	33.33%

The calculation of the expected 2006 IC ratio includes estimated income tax expense in 2006.

The income tax returns of Test-Rite for the years through 2002 have been examined and approved by the tax authority except year 2001. However, tax authority assessed for an additional income tax payable of approximately $15,097 thousand for the year 2002. Test-Rite does not agree with the assessment and has appealed for a reexamination. Additional provision has been recorded for such assessment in 2005.

Tax authority assessed year 2003 for an additional income tax of approximately $106,721 thousand. The main difference was the rejected bad-debt expense of $449,956 thousand. Test-Rite does not agree with the assessment and has appealed for a reexamination. Test-Rite expects to recognize the loss and get legal certificates in future year. Additional provision for deferred tax assets of $112,500 thousand has been recorded for such assessment in 2006.

33. NET INVESTMENT LOSS

Net investment loss (gain) for the years ended December 31, 2006 and 2005 is summarized as follows:

	2006	2005
Cash bonuses of directors and supervisors	$ (300)	$ -
Loss on decreased capital stock of long-term equity investments	-	15,177
Proceeds from liquidation of long-term equity investments	(16)	-
Permanent decline in value of long-term equity investments	-	64,670
Cash dividends	(3,580)	(2,497)
	$ (3,896)	$ 77,350

34. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are outlined as follows:

Name	Relationship
Test-Rite Int’l (Mexico) Ltd. (“TR Mexico”)	Parent company holds 49.00% ownership interest
Up Master Investment Co., Ltd. (“Up Master”)	Related party in substance
Li Xiong Co., Ltd.	Up Master holds 100.00% ownership interest
X-Cel Relationship Management Co., Ltd.	Related party in substance
Tony Ho	Chairman of parent company
Judy Lee	Parent company’s managing director
Joyce Sun	The director of related party

Rental Income

Rental income from related parties for the years ended December 31, 2006 and 2005 is summarized below:

	2006		2005	
	Amount	%	Amount	%
Others	$ 151	-	$ 151	-

The Company's rental income from related parties is according to market price and the rental income is received monthly.

Service Income

Service income from related parties for the years ended December 31, 2006 and 2005 is summarized below:

	2006		2005	
	Amount	%	Amount	%
X-Cel Relationship Management	$ 114	-	$ 114	-
Up Master	114	-	114	-
Li Xiong	114	-	-	-
	$ 342	-	$ 228	-

Selling, General and Administrative Expenses - Commission Expenses

Commission expenses to related parties for the years ended December 31, 2006 and 2005 are summarized below:

	2006		2005	
	Amount	%	Amount	%
TR Mexico	$ 29,618	7	$ 15,767	5

Commission expenses to related parties are based on gross profit while commission expenses to non-related parties are based on selling prices.

Due from Related Parties

Due from related parties as of December 31, 2006 and 2005 is summarized below:

	2006		2005	
	Amount	%	Amount	%
Advances for related parties				
TR Mexico	$ 4,275	100	$ 4,114	100
Advances for related parties, noncurrent				
CENDYNE	$ 81,451	100	$ 184,679	100

Due to Related Parties

Due to related parties as of December 31, 2006 and 2005 is summarized below:

	2006		2005	
	Amount	**%**	**Amount**	**%**
Accrued commission expenses				
TR Mexico	$ 3,258	7	$ 1,655	3

Payment of Credit Guarantees

As of December 31, 2006, long-term debt of $1,567,228 thousand was guaranteed by Tony Ho, Judy Lee and Joyce Sun.

As of December 31, 2006, long-term debt of $1,775,000 thousand was guaranteed by Tony Ho and Judy Lee.

35. PLEDGED ASSETS

Assets pledged for various purposes as of December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Accounts receivable (see Note 8)	$ 311,501	$ 353,563
Time deposits (see Note 10)	3,039	-
Land (see Note 18)	566,506	267,519
Buildings and improvements (see Note 18)	196,226	-
	$ 1,077,272	$ 621,082

36. COMMITMENTS AND CONTINGENCIES

Letter of Credit

Test-Rite's outstanding letters of credit not reflected in the accompanying financial statements as of December 31, 2006 and 2005 are US$1,571 thousand and US$3,012 thousand.

Tong Long Metal's outstanding funding letters of credit for purchases of raw material and equipment amounted to approximately $39,534 thousand. Tong Long Metal has materials ordered but not yet received of approximately $35,044 thousand. Tong Long Metal committed to proceed with the division and transfer of building No. 59 to a hospital. Besides, the hospital has the first priority right to purchase the remaining portion of the land situated in May-Lin factory if Tong Long Metal decides to sell it within ten years.

Test-Rite concluded with Hong Kong and Shanghai Banking Co., Ltd. in December 2006 a line of credit for $1,000,000 thousand and Test-Rite will pledge its direct and indirect holdings in stock of Tong Long Metal Industry Co., Ltd. accounting for 150% of actual amounts borrowed from HSBC in June 2007. On December 31, 2006, the actual financing amount is $1,000,000 thousand.

MDI borrowed from ING the amount of US$11,000 thousand which Test-Rite guaranteed in a Facility Letter with ING. The Letter said Test-Rite needs to save enough bank deposits to ensure the payment of the amount which MDI used. In December 2006, MDI has cancelled the financing agreement. As of December 31, 2005, MDI had borrowed US$11,000 thousand.

On December 31, 2005, TR Products and Compass Home concluded the factoring of receivables with UPS. The agreement declared that TR Products and Compass Home should not be responsible for the credit risk of accounts receivable not being collected. But when non-credit risk happened, UPS would request TR Products and Compass Home to pay the amounts. To protect their rights, UPS concluded the Domestic Receivable Buyback Agreement with Test-Rite. Test-Rite promises that if TR Products and Compass Home could not pay the amounts when non-credit risk happened, UPS can request Test-Rite to pay the amounts. On December 31, 2006, the factored amounts of TR Products and Compass Home with UPS were US$11,000 thousand and US$4,000 thousand, respectively.

Litigation

On July 29, 2003, Test-Rite filed a complaint against CENDYNE (Test-Rite indirectly holds a 50% ownership interest) and its key officers [including Edward Meadows, Dean Vahdati and Mohammad Vahdati (collectively, the “Individual Defendants”)] and an ex-parte application for writ of attachment against the assets of CENDYNE, with the Superior Court of Orange County, California, USA (the “Court”) on grounds that during 2002, when Test-Rite invested in CENDYNE’s stock, CENDYNE’s officers made false statements to Test-Rite, concealed information, concerning CENDYNE’s liabilities and CENDYNE’s losses derived from certain “Price Protection Obligation to Retailers” and “Mail-in Rebates to Consumers” in 2003, and Test-Rite demanded for damages for at least US$22,700 thousand as a result of its reliance on defendants’ false statements and concealment. Test-Rite’s counsel in the United States petitioned the Court for appointment of a Receiver to take control of CENDYNE and liquidate and distribute its assets to creditors.

Test-Rite settled its claims against the Individual Defendants. The Individual Defendants agreed to make a US$30 thousand payment to Test-Rite and the parties gave each other mutual general releases from all other matters. The receivership of CENDYNE is still pending before the Court, and a resolution of the receivership and payment to Test-Rite in respect of its claim against the receivership estate is expected sometime. The receiver has stipulated in writing CENDYNE’s assets. As part of the settlement between Test-Rite and the Individual Defendants, the Individual Defendants agreed to disclaim any interest in the receivership estate of CENDYNE.

As of December 31, 2006, the terminated significant litigations are disclosed in a. and b. below from which Tong Long Metal will be indemnified for an aggregate of $3,268,600 thousand. Tong Long Metal could request the attachment of defendants’ properties to ensure creditor’s right within five years and processing fee (NT$8 dollars for each NT$1,000 dollars in terms of defendant’s property value) should be paid by claimant. As of December 31, 2006, Tong long Metal has claimed from Fang Fung Yuan, Fang Fung Kuei and Tsai Wan Hwa for creditor’s right amounted to $2,500 thousand and actually received indemnity of $970 thousand.

(a) Tong Long Metal claimed for an indemnity from Fang Fung Yuan, Fang Fung Kuei for management fraud. Consequently, the Taiwan High Court judged Fang Fung Yuan should pay an indemnity of $1,407,400 thousand to Tong Long Metal. Claim of Tong Long Metal for indemnity from Fang Fung Kuei’s embezzlement of $1,859,000 thousand was heard by the court on first trial.

(b) Tong Long Metal filed criminal suit and claimed for an indemnity of $2,200 thousand against Fang Fung Kuei and his driver, Tsai Wan Hwa for embezzling Tong Long Metal's automobile. Taiwan Shihlin District Court had adjudged indemnity for $2,200 thousand from Fang Fung Kue, and Tsai Wan Hwa in April 2002.

As of December 31, 2006, Tong Long Metal has significant in-process litigation named Chen Shu Yuan stockholder case. This case represents Chen Shu Yuan and the other 3801 stockholders (stockholders) who brought a suit against Tong Long Metal due to their investment loss suffered from subscription to Tong Long Metal's capital increase in cash in 1997. Those stockholders claimed for indemnity of NT$1.4 billion but such claim was suspended immediately when Tong Long Metal was approved for reorganization. As soon as Tong Long Metal completed the reorganization, Taiwan High Court adjudicated and rejected those stockholders' claim. Those stockholders further raised an appeal to the Supreme Court. However, according to Tong Long Metal lawyer's opinion, such right to appeal for those stockholders is beyond the determined period in law. Consequently, Tong Long Metal did not make any recording for such contingent payable.

Tong Long Metal sold machine and equipment to She An She Corporation in January 2001. She An She Corporation has not paid $12,000 thousand to Tong Long Metal. Tong Long Metal claims compensation for $6,000 thousand and applied for a pay warrant in May 2005 which She An She had objected to. The pay warrant was change to an indictment case. Tong Long Metal lost the lawsuit at first instance in local court of Chia Yi in March 2006 because Tong Long Metal issued incomplete warrant letter to She An She. Tong Long Metal raised indictment for second instance at the local court of Tainan.

37. SIGNIFICANT SUBSEQUENT EVENT

In February 2007, the Company had paid US$4,338 thousand (NT$141,417 thousand) for Blundale Group Ltd.'s stock (see Note 1).

On January 9, 2007, Chung Cin Enterprise Co., Ltd. has sold all of its shares in St. Finesse amounting $43,200 thousand (see Note 12).

38. DISCLOSURES FOR FINANCIAL INSTRUMENTS

The Company adopted newly released Statement of Financial Accounting Standards ("SFAS") No. 34, "Accounting for Financial Instruments". Please see Note 3 for the cumulative effect of changes in accounting principle.

Nominal Amount and Credit Risk

The forward exchange contract as of December 31, 2006 and 2005 is summarized below:

		2006		2005	
Financial Instruments	**Type**	**Nominal Amount**	**Credit Risk**	**Nominal Amount**	**Credit Risk**
Non-trading purpose					
Forward exchange	Sale	US$ 232,699	-	US$ 101,300	-
	Buy	US$ 191,850	-	US$ 49	-
	Sale	EUR 3,000	-	EUR -	-

The option contracts as of December 31, 2006 and 2005 are summarized below:

	2006						
	Contract Amount		Call Option	Put Option	Exchange Rate	Maturity Day	Credit Risk
Sell option contract							
Trading purpose	US$	10,000	USD	NTD	32.7	2006.12.27~ 2007.01.31	-

	2005						
	Contract Amount		Call Option	Put Option	Exchange Rate	Maturity Day	Credit Risk
Sell option contract							
Trading purpose	EUR€	16,000	EUR	USD	1.22~1.26	2006.07.05 ~2006.12.12	-
	US$	8,000	USD	NTD	31.8	2006.01.11 ~2006.01.27	-
	EUR€	24,000	USD	EUR	1.16~1.185	2006.02.28 ~2006.12.12	-
	US$	5,000	NTD	USD	29.8~30.2	2006.01.05 ~2006.03.02	-
Buy option contract							
Trading purpose	EUR€	8,000	EUR	USD	1.17~1.19	2006.02.28 ~2006.07.05	-
Interest rate swap	NT$	200,000	-	-	4.00	2006.06.02	-
	NT$	220,000	NTD	JPY	Floating	2006.02.04	-
	NT$	220,000	NTD	USD	Floating	2006.02.04	-

The Company will suffer losses if the counterparties default. However, the Company's credit risk is insignificant on the basis of the reputable banks as counterparties.

Market Risk

For a derivative designated as hedging instrument, the gain or loss derived from the fluctuation of interest rate or exchange rate is to be offset by the loss or gain on the hedged item attributable to the risk being hedged and thus, the market risk is insignificant.

Liquidity Risk and Cash Flow Risk

The Company has the ability to meet its financial obligations under the derivative contracts and thus, liquidity risks virtually do not exist.

Foreign exchange rates embedded in the derivative contracts are fixed at the inception and thus, cash flow risks are insignificant.

Reporting of Derivative Instruments in the Financial Statements

As of December 31, 2006 and 2005, the receivable and payable derived from foreign exchange contracts are summarized below:

	2006	2005
Forward contract receivable	$ 13,904,746	$ 28,537,027
Less forward contract payable	(13,905,320)	(28,328,464)
Receivable on forward contracts, net	$ (574)	$ 208,563

Foreign exchange gains (losses) of the Company from derivative financial instruments for the years ended December 31, 2006 and 2005 amounted to $318,533 thousand and $(37,373) thousand, which were reported as non-operating income - exchange gains and non-operating loss - exchange losses.

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments as of December 31, 2006 and 2005 is summarized as follows:

	2006		2005	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Assets				
Cash and cash equivalents	$ 1,244,524	$ 1,244,524	$ 1,522,517	$ 1,522,517
Financial assets at fair value through profit or loss, current	626,479	626,479	890,768	890,768
Available-for-sale financial assets, current	9,417	9,417	-	-
Financial assets carried at cost, current	3,325	3,325	-	-
Notes receivable	49,785	49,785	47,978	47,978
Accounts receivable	2,023,982	2,023,982	1,897,618	1,897,618
Other receivable	242,980	242,980	387,819	387,819
Other current financial assets	15,265	15,265	17,126	17,126
Long-term investments	42,877	42,877	46,759	46,759
Available-for-sale financial assets, noncurrent	68,000	68,000	-	-
Holding to maturity financial assets, noncurrent	21,461	21,461	24,070	24,070
Financial assets carried at cost, noncurrent	180,496	180,496	133,975	133,975
Bond investments without active market, noncurrent	30,000	30,000	31,000	31,000
Refundable deposits	728,512	728,512	610,029	610,029
Other assets	586,422	586,422	388,405	388,405
Liabilities				
Short-term bank borrowings	4,040,459	4,040,459	3,433,147	3,433,147
Short-term obligations	60,000	60,000	30,000	30,000
Financial liabilities at fair value through profit or loss, current	14,182	14,182	18,688	18,688
Notes payable	118,033	118,033	111,110	111,110
Accounts payable	3,229,716	3,229,716	2,641,078	2,641,078
Other payable	837,235	837,235	1,184,069	1,184,069
Other current financial liabilities	1,354	1,354	3,064	3,064
Long-term liabilities	2,686,400	2,686,400	1,716,400	1,716,400
Other financial debt	25,756	25,756	41,037	41,037

The fair value of derivative financial instruments as of December 31, 2006 and 2005 is summarized as follows:

	2006		2005	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Unsettled option transaction	$ 592	$ 592	$ (13,935)	$ (13,935)
Buy forward exchange asset	3,660	3,660	477,260	477,260
Sell forward exchange liability	(4,234)	(4,234)	(226,390)	(226,390)

Approaches and assumptions employed in assessing the fair value of financial instruments are summarized as follows:

(a) Financial instruments classified as current assets and liabilities, cash and cash equivalents, notes receivable, notes receivable from affiliates, accounts receivable, accounts receivable from affiliates, short-term bank borrowings, short-term obligations, notes payable, accounts payable, and other financial instruments, etc., whose maturity dates are short-term recognize carrying value as fair value.

(b) Short-term investments and long-term investments, for which market prices exist, are valued at market prices. Otherwise, available financial or other useful information is employed to compute fair value.

(c) Long-term debt is stated at discount value.

(d) Refundable deposits and advance deposits from customers, is stated at discount value.

(e) The fair value of derivative financial instruments is the amounts which the Company expects to receive or pay if the Company stops the contracts according to the agreement at the balance sheet date. Generally, the amounts included unrealized gain or loss on outstanding contracts and most of them have reference value from financial organizations.

39. OTHERS

Test-Rite entered into lease agreements for office premises as follows:

List of rent expense that should be paid each year in the future 5 years and the present value of rentals from 2012 to 2018 as of December 31, 2006:

Period	**Amount**
2007	$ 64,760
2008	66,703
2009	68,704
2010	70,765
2011	72,888
2012~2016 (present value $310,911 thousand)	398,583
2017~2018 (present value $109,306 thousand)	157,840
	$900,243

Chung Cin Enterprise entered into lease agreements with non-affiliates as follows:

List of rent income that should be received each year in the future 5 years and the present value of rentals from 2012 to 2026 as of December 31, 2006:

Period	**Amount**
2007	$ 71,094
2008	62,846
2009	32,106
2010	30,180
2011	25,473
2012~2016 (present value $57,985 thousand)	70,862
2017~2021 (present value $10,196 thousand)	14,878
2022~2026 (present value $6,192 thousand)	10,300
	$317,739

Chung Cin Enterprise entered into lease agreements with non-affiliate as follows:

List of rent expense that should be paid each year in the future 5 years and the present value of rentals from 2012 to 2026 as of December 31, 2006:

Period	**Amount**
2007	$ 27,279
2008	27,949
2009	28,366
2010	28,795
2011	29,940
2012~2016 (present value $145,014 thousand)	159,022
2017~2021 (present value $153,299 thousand)	179,218
2022~2026 (present value $115,700 thousand)	143,425
	$623,994

TR U.S. entered into lease agreements for the sale-leaseback of equipment, warehouse, and showroom facilities in several states.

List of rent expense that should be paid each year in the future 5 years and the present value of rentals from 2012 to 2013 as of December 31, 2006:

Period	**Amount**
2007	$165,784
2008	110,867
2009	87,889
2010	90,040
2011	76,880
2012~2013	58,491
	$589,951

TR U.S. has trademark license agreements with non-affiliate.

List of royalty expense that should be paid each year in the future 5 years as of December 31, 2006:

Period	Amount
2007	$ 7,877
2008	6,519
2009	6,519
2010	3,260
	$ 24,175

Hola Homefurnishings entered into lease agreements for office premises as follows:

List of rent expense that should be paid each year in the future 5 years and the present value of rentals from 2012 to 2026 as of December 31, 2006:

Period	Amount
2007	$ 83,807
2008	84,285
2009	84,717
2010	85,276
2011	80,058
2012~2016 (present value $327,218 thousand)	358,258
2017~2021 (present value $257,005 thousand)	300,752
2022~2026 (present value $98,202 thousand)	120,301
	$ 1,197,454

TR Retailing entered into lease agreements for office premises as follows:

List of rent expense that should be received each year in the future 5 years and the present value of rentals from 2012 to 2021 as of December 31, 2006:

Period	Amount
2007	$ 144,208
2008	147,169
2009	151,916
2010	159,219
2011	162,507
2012~2016 (present value $732,956 thousand)	887,428
2017~2021 (present value $350,750 thousand)	537,735
	$ 2,190,182