Test-Rite International Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Six-Month Period Ended June 30, 2005 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheet of Test-Rite International Co., Ltd. and subsidiaries (collectively, the "Company") as of June 30, 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six-month period then ended (all expressed in thousands of New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to report on these financial statements based on our review.

Except as discussed in the following paragraph, we conducted our review in accordance with Statement on Auditing Standards No. 36 "Review of Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As mentioned in Note 2, certain insignificant subsidiaries' assets and liabilities that amounted to $271,458 thousand and $158,294 thousand constituting 1.67% and 1.65% of the consolidated total assets and liabilities as of June 30, 2005 and income before income tax that amounted to $11,048 thousand constituting 1.60% of the consolidated income before income tax for the six-month period then ended were based on unreviewed financial statements of the subsidiaries.

As mentioned in Note 10, the Company's investments accounted for by the equity method that amounted to $44,579 thousand constituting 0.27% of the consolidated total assets as of June 30, 2005, and the equity in earnings of such investees that amounted to $2,787 thousand for the six-month period then ended, were based on unreviewed financial statements of the investees.

Based on our review, except for such adjustments, if any, on the reported amounts of certain insignificant subsidiaries and equity-accounted investees and the related equity in earnings of such investees had we reviewed the financial statements of such investees as mentioned above, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2005, the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, ROC requires the Company to prepare semiannual consolidated financial statements and permits a single period presentation at the initial adoption.

August 16, 2005

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

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

For the convenience of readers, the independent accountants' review 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 independent accountants' review 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 SHEET
JUNE 30, 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

ASSETS	Amount	%
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 and 4)	$ 1,214,346	7
Short-term investments (Notes 2 and 5)	970,189	6
Notes receivable (Notes 2 and 6)	7,844	-
Accounts receivable (Notes 2 and 6)	1,566,589	10
Accounts receivable from affiliates (Notes 2, 6 and 28)	179,144	1
Other receivables (Note 7)	523,663	3
Other financial assets, current (Note 8)	216,015	1
Inventories (Notes 2 and 9)	3,385,664	21
Prepayments	899,964	6
Other current assets	149,065	1
Total current assets	9,112,483	56
LONG-TERM INVESTMENTS (Notes 2 and 10)	376,428	2
OTHER FINANCIAL ASSETS, NONCURRENT (Note 11)	598,630	4
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 12)		
Cost		
Land	773,813	5
Buildings and improvements	1,576,245	9
Machinery equipment	491,753	3
Transportation equipment	64,217	-
Leasehold improvements	4,515,673	28
Other equipment	789,440	5
	8,211,141	50
Less accumulated depreciation	(2,483,255)	(15)
Prepayments for property, plant and equipment	47,289	-
Property, plant and equipment, net	5,775,175	35
OTHER ASSETS (Notes 2 and 13)	421,405	3
TOTAL	$ 16,284,121	100

LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%
CURRENT LIABILITIES		
Short-term bank borrowings (Note 14)	$ 3,113,192	19
Short-term obligations (Note 15)	200,000	1
Notes payable	14,898	-
Accounts payable	2,031,806	13
Income tax payable (Notes 2 and 26)	231,316	1
Other payables (Note 16)	1,528,622	9
Advance receipt	172,455	1
Current portion of long-term liabilities (Note 17)	440,000	3
Other current liabilities (Note 18)	152,729	1
Total current liabilities	7,885,018	48
LONG-TERM LIABILITIES		
Bonds payable (Note 19)	190,797	1
Long-term debt (Note 20)	1,365,526	9
Total long-term liabilities	1,556,323	10
OTHER LIABILITIES		
Other (Note 21)	151,733	1
Total liabilities	9,593,074	59
STOCKHOLDERS' EQUITY		
Capital stock (Note 22)	3,982,967	24
Stock dividends to be distributed (Note 22)	133,229	1
Capital surplus		
Additional paid-in capital	498,339	3
Treasury stock	10,703	-
Retained earnings (Note 23)		
Legal reserve	496,587	3
Unappropriated earnings	525,442	3
Cumulative translation adjustments (Note 2)	10,073	-
Treasury stock (Notes 2 and 24)	(546,510)	(3)
Total stockholders' equity of parent company	5,110,830	31
Minority interest	1,580,217	10
Total stockholders' equity	6,691,047	41
TOTAL	$ 16,284,121	100

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

(With Deloitte & Touche review report dated August 16, 2005)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
SIX-MONTH PERIOD ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	Amount	%
OPERATING REVENUES	$ 17,286,406	100
OPERATING COST	13,034,140	76
GROSS PROFIT	4,252,266	24
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,489,781	20
INCOME FROM OPERATIONS	762,485	4
NON-OPERATING INCOME		
Interest income	23,093	-
Equity in net earnings of investees (Notes 2 and 10)	2,787	-
Gain on disposal of property, plant and equipment	3,134	-
Net gain on sale of investments	47,631	-
Exchange gains, net	108,682	1
Others	88,185	1
Total non-operating income	273,512	2
NON-OPERATING EXPENSES		
Interest expenses	119,137	1
Net investment loss (Note 27)	61,853	-
Loss on disposal of property, plant and equipment	2,538	-
Loss on physical inventory	38,403	-
Loss on inventory devaluation	59,504	-
Others	63,370	1
Total non-operating expenses	344,805	2
INCOME BEFORE INCOME TAX	691,192	4
PROVISION FOR INCOME TAX (Notes 2 and 26)	(191,530)	(1)
TOTAL CONSOLIDATED NET INCOME	$ 499,662	3
BELONG TO		
Parent company’s stockholder	$ 353,530	2
Minority interest	146,132	1
	$ 499,662	3

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
SIX-MONTH PERIOD ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	Before Income Tax (Include Minority	After Income Tax (Belong to Parent Company)
BASIC EARNINGS PER SHARE (Notes 2 and 22)	$ 1.88	$ 0.96
DILUTED EARNINGS PER SHARE (Notes 2 and 22)	$ 1.83	$ 0.94

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

(With Deloitte & Touche review report dated August 16, 2005) (Concluded)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
SIX-MONTH PERIOD ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Capital Stock	Stock Dividend to be Distributed	Capital Surplus: Additional Paid-in Capital	Capital Surplus: Treasury Stock	Retained Earnings: Legal Reserve	Retained Earnings: Unappropriated Earnings	Cumulative Translation Adjustments	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)	$1,521,378	$6,955,262
Appropriation and distribution of 2004 net income (Note 22)										
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)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	(13,551)	-	-	(13,551)
Minority interest	-	-	-	-	-	-	-	-	(87,293)	(87,293)
Convertible bonds converted into common stock (Note 22)	9,854	-	4,332	-	-	-	-	-	-	14,186
Total consolidated income for the six-month period ended June 30, 2005	-	-	-	-	-	353,530	-	-	146,132	499,662
BALANCE, JUNE 30, 2005	$3,982,967	$133,229	$498,339	$ 10,703	$496,587	$ 525,442	$ 10,073	$ (546,510)	$1,580,217	$6,691,047

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

(With Deloitte & Touche review report dated August 16, 2005)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
SIX-MONTH PERIOD ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

CASH FLOWS FROM OPERATING ACTIVITIES	
Total consolidated net income	$ 499,662
Adjustments to reconcile net income to net cash used in operating activities	
Depreciation and amortization	328,438
Amortization for the cost of issuing bonds and unrealized interest expenditure	1,546
Recovery of provision for short-term investment valuation	(190)
Permanent decline in value of long-term equity investments	64,670
Provision for inventory devaluation	59,504
Equity in net earnings of affiliates	(2,787)
Loss on decreased capital stock of long-term equity investments	1,198
Net gains on disposal of long-term equity investments	(14,728)
Exchange loss of long-term equity investments	7,199
Net gains on disposal of property, plant and equipment	(596)
Loss on abandoned property, plant and equipment	58
Net changes in operating assets and liabilities	
Short-term investments for trading purpose	(44,948)
Notes receivable	40,645
Notes receivable from affiliates	10,897
Accounts receivable	211,862
Accounts receivable from affiliates	(35,708)
Other receivables	(210,116)
Other financial assets, current	(49,210)
Inventories	(104,838)
Prepayments	(72,947)
Forward foreign exchange receivable for trading purpose	8,381
Deferred income tax assets, current	2,292
Other current assets	11,640
Other financial assets, noncurrent	6,523
Deferred income tax assets, noncurrent	(20,981)
Other assets	(50,063)
Notes payable	(87,393)
Accounts payable	(301,454)
Income tax payable	(111,557)
Other payables	(174,368)
Advance receipt	(210,440)
Other current liabilities	83,642
Interest expense compensation payable	3,267
Accrued pension cost	14,350
Other liabilities	(35,959)
Net cash used in operating activities	(172,509)

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
SIX-MONTH PERIOD ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in financing deposit	$ (36,451)
Forward foreign exchange receivable for avoiding the risk of foreign currencies exchange	(6,141)
Proceeds from decrease in capital stock of long-term equity investments	500
Acquisition of property, plant and equipment	(571,903)
Proceeds from disposal of property, plant and equipment	105
Decrease in refundable deposits	2,818
Increase in deferred charges	(60,493)
Increase in patents	(327)
Increase in goodwill	(118)
Net cash used in investing activities	(672,010)
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in short-term bank borrowings	1,388,057
Increase in short-term obligations	180,000
Decrease in long-term debt	(529,540)
Increase in deposits received	4,683
Decrease in minority interest	(87,293)
Net cash provided by financing activities	955,907
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(19,138)
EFFECT OF THE FIRST TIME CONSOLIDATION OF SUBSIDIARIES	262,202
NET INCREASE IN CASH AND CASH EQUIVALENTS	354,452
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	859,894
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,214,346
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the period	
Interest	$ 97,002
Income tax	$ 297,152

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
SIX-MONTH PERIOD ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

Cash paid during the period for acquisition of property, plant and equipment	
Property, plant and equipment acquired	$ 593,366
Add liabilities for acquisition of property, plant and equipment at beginning of period	1,586
Deduct liabilities for acquisition of property, plant and equipment at end of period	(23,049)
Cash paid during the period for acquisition of property, plant and equipment	$ 571,903
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES	
Translation adjustments on long-term equity investments	$ (5,587)
Receivable on disposal of long-term equity investments	$ (39,440)
Bonuses to directors and supervisors	$ 14,911
Bonuses to employees	$ 4
Dividends payable	$ 662,304
Convertible bonds converted into common stock	$ 14,186
Current portion of long-term liabilities	$ 440,000

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

(With Deloitte & Touche review report dated August 16, 2005) (Concluded)

(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 (%)
Fortune Miles Co., Ltd.	Directly held 100.00%	Investment holding company	100.00
Test-Rite Fortune Co., Ltd.	Directly held 100.00%	Investment holding company	100.00
Test-Rite Star Co., Ltd.	Directly held 100.00%	Investment holding company	100.00
Test-Rite Investment (B.V.I.) Co., Ltd.	Directly held 100.00%	Investment in various industry	100.00
Test-Rite Retailing Co., Ltd.	Directly held 100.00%	Investment holding company	100.00
B&S Link Co., Ltd. (Cayman)	Directly held 100.00%	Investment holding company	100.00
Test-Rite Trading Co., Ltd.	Directly held 100.00%	Investment holding company	100.00
Test-Rite Pte Ltd.	Directly held 100.00%	Importation and exportation	100.00
Test-Rite Product (Hong Kong) Ltd.	Directly held 100.00%	Importation and exportation	100.00
TRS Investment Co., Ltd.	Directly held 100.00%	Investment holding company	100.00
Lih Chiou Co., Ltd.	Directly held 100.00%	International trade	100.00
Lih Teh International Co., Ltd.	Directly held 100.00%	Integrating data and providing information	100.00
B&S Link Co., Ltd.	Directly held 100.00%	Providing information software and electronic information	100.00
Fusion International Distribution, Inc.	Directly held 100.00%	Trade and agent of goods	100.00
Chung Cin Enterprise Co., Ltd.	Directly held 100.00%	Authorized builder to build dwelling, rental and sale of building	100.00
Quality Master Co., Ltd.	Directly held 100.00%	Investment in various industries	100.00
Test-Rite Quickbuy Co., Ltd.	Indirectly held 100.00%	Sale of articles for daily use	100.00
Chung Cin Interior Design Construction Co., Ltd.	Indirectly held 100.00%	Inerior Design	100.00
Chung Cin Construction Co., Ltd.	Indirectly held 100.00%	Build and civil engineering	100.00
Test Cin M&E Engineering Co., Ltd.	Indirectly held 100.00%	Mechanical and electronic engineering	100.00
Chantey (Shanghai) Investment Consultation Co., Ltd.	Indirectly held 100.00%	Provide consultation of construction	100.00
Tong Ying Construction Co., Ltd.	Indirectly held 100.00%	Build and civil engineering	100.00

Subsidiaries	Relationship with Parent Company	Main Business	Effective Holding (%)
Tong Ying Investment Co., Ltd.	Indirectly held 100.00%	Investment in various industries	100.00
Covalue Consultant Co., Ltd.	Indirectly held 80.00%	Consultant of business operation	80.00
Test-Rite Development Co., Ltd.	Directly held 80.00%	Investment holding company	80.00
Homy Homefurnishings Co., Ltd.	Indirectly held 80.00%	Sale of bedclothes	80.00
U2 Industry Design Co., Ltd.	Directly held 64.00%	Design new product	64.00
Hola Homefurnishings Co., Ltd.	Indirectly held 58.93%	Importation and exportation, department store, supermarket and restaurant	58.93
Test-Rite B&Q Co., Ltd.	Controllable investee	Sale of house decoration hardware and construction materials	49.99
B&Q Indoor Decoration & Renovation Co., Ltd.	Controllable investee	Interior design	49.99
Test-Rite Int’l (U.S.) Co., Ltd.	Controllable investee	Importation and exportation	49.00
Test-Rite Int’l (Thailand) Ltd.	Controllable investee	Importation and exportation	48.99
Test-Rite Int’l (Australia) Pty Ltd.	Controllable investee	Importation and exportation	48.00

As of June 30, 2005, Test-Rite and subsidiaries (collectively, the “Company”) have 4,024 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 and accounting principles generally accepted in the Republic of China. Under these guidelines and principles, the Company is required to make estimates of allowance for doubtful accounts, allowance for inventory loss, depreciation, 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 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. According to the regulation issued by Securities and Futures Bureau, Financial Supervisory Commission Executive Yuan, ROC, the Company is required to prepare semiannual consolidated financial statements but permitted to only present single period for the six-month period ended June 30, 2005 for the initial compliance. The financial statements of certain insignificant subsidiaries (Test-Rite Pte, Test-Rite Product (Hong Kong), Test-Rite Thailand, Test-Rite Australia and Chantey (Shanghai) Investment Consultation) were unreviewed.

Classification of Current and Noncurrent

Assets expected to be converted into cash, sold, or consumed in twelve months or in the normal operating cycle are recorded as current assets. Liabilities expected to be liquidated in twelve months or in the normal operating cycle are recorded as current liabilities. Assets (liabilities) not being recorded as current assets (liabilities) are recorded as noncurrent assets (liabilities).

Cash and Cash Equivalents

Cash includes cash on hand and unrestricted bank deposits. Cash equivalents refer to 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.

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.

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 ("SFAS") 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

Inventories are stated at the lower of cost or market (net realizable value). Cost of inventories is determined using the weighted average method.

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 Investments

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. Other long-term investments are carried at cost. When equity method of accounting is used, purchased goodwill is amortized over a five-year to ten-year period.

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.

The cost basis of the securities, which is accounted for under the cost method and not traded on the Taiwan Stock Exchange or the Over-the-Counter Exchange in Taiwan, 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.

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

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	35~41 years
Machinery equipment	2.25~8.25 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	2~8.25 years
Computers and accessories	3 years
Leasehold improvements	3~10 years
Molds and tools	2~3 years
Other equipment	5 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 revaluation based on certain regulation shows 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 a 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.

Deferred Charges

Deferred charges are amortized on the straight-line method over a three-year period. Issuing costs of bonds are amortized over the term of bonds.

Goodwill

Goodwill is amortized on the straight-line method over a five-year period.

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.

Retirement Plan

Test-Rite, Hola, Chung Cin Enterprise, Chung Cin Interior Design Construction, Chung Cin Construction, Tong Ying Construction, Test Cin M&E and B&Q 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 is funded at 2%.

Test-Rite, Hola, Chung Cin Enterprise, Chung Cin Interior Design Construction, Chung Cin Construction, Tong Ying Construction, Test Cin M&E and B&Q 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.

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, any resulting gains or losses are credited or charged to non-operating income or expense.

A forward exchange contract is recorded at the exchange rate as of the contract date if the contract is entered into for the purpose of hedging. The difference between the current spot rate at the contract date and the forward rate is amortized over the life of the contract. Additionally, such contract should be adjusted at the current rate as at the balance-sheet-date. Any exchange gain or loss should be recognized in the current period.

Cumulative Translation Adjustments on Long-Term Equity Investments

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 current rate or 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 (SFAS) 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 (SFAS) 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 statement 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 tax assets and liabilities.

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.

Derivative Financial Instruments

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.

Contracts used for trading purposes are marked to market, with the related gain or loss recognized as other income or expense.

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

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.

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.

3. ACCOUNTING CHANGE

The Company adopted Statement of Financial Accounting Standards No. 35 "Impairment of Assets" from January 1, 2005. There is no effect on the financial statements for the six-month period ended June 30, 2005.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2005 consist of the following:

Cash on hand	$ 10,407
Petty cash	8,157
Checking deposits	29,594
Savings deposits	299,504
Foreign currency deposits	794,976
Time certificates of deposit	31,612
Commercial paper	40,000
Cash equivalents	96
	$ 1,214,346

5. SHORT-TERM INVESTMENTS

The carrying value and market value of short-term investments as of June 30, 2005 consist of the following:

	Carrying Value	Market Value
Equity securities marketable on Taiwan Stock Exchange and in the over-the-counter market	$ 16,320	$ 15,161
Open-end funds	907,892	911,463
Convertible bonds	3,234	3,214
Euro convertible bonds	26,938	26,292
Global depository receipts	13,317	13,516
Stock warrant	976	976
Offshore mutual funds	2,150	2,150
	970,827	972,772
Less allowance for decline in market value	(638)	-
	$970,189	$972,772

The short selling of short-term investments as of June 30, 2005 is summarized as follows:

	Carrying Value	Market Value
Equity securities marketable on Taiwan Stock Exchange and in the over-the-counter market	$ 51,494	$ 51,494

The market values of marketable equity, convertible bonds, euro convertible bonds, global depository receipts and stock warrant are determined by averaging the daily market closing prices during the month of June, whereas the market values of open-end funds and offshore mutual funds are determined using the last published per-unit fair values in June.

The net change in the investment valuation allowance of separate subsidiaries for the six-month period ended June 30, 2005 amounted to $638 thousand. After considering the valuation allowance balance of $828 thousand as of December 31, 2004, the recovery from devaluation amounted to $190 thousand was reported as deduction of investment loss for the six-month period ended June 30, 2005 (see Note 27). Also, the short selling in the investment as of June 30, 2005 amounted to $51,493 thousand, which was included in both the receivable on short selling stock and payable on short selling stock. The deposits of short selling amounted to $46,583 thousand and were included in financing deposits under other financial assets, current (see Notes 8 and 18).

6. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of June 30, 2005 consist of the following:

Non-affiliate	
Notes receivable	$ 7,844
Accounts receivable	1,598,578
Less allowance for doubtful accounts	(31,989)
	1,566,589
	$ 1,574,433
Affiliates	
Accounts receivable	$ 179,144
Less allowance for doubtful accounts	-
	$ 179,144

Master Design Inc. ("MDI"), a subsidiary of Test-Rite Int'l (U.S.) Co., Ltd., has 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 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 prior to the collection of the accounts. However, factor may do so at its discretion upon MDI's request, 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 June 30, 2005, the accounts receivable factoring is summarized as follows:

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$ 7,335 (About $231,924 thousand)	US$ 6,521 (About $206,192 thousand)	US$ 814 (About $25,732 thousand)
Hong Kong and Shanghai Banking Corporation Ltd.	LIBOR plus 0.4%	US$ 10,736 (About $339,464 thousand)	US$ 9,000 (About $284,562 thousand)	US$ 1,736 (About $54,902 thousand)
CIT Group	JP Morgan basic loan rate minus 0.25% or 3% annually rate	US$ 6,009 (About $189,992 thousand)	US$ 5,408 (About $170,990 thousand)	US$ 601 (About $19,002 thousand)

Net amount due from factor was reported under other receivables (see Note 7).

Test-Rite Int'l (U.S.) and Test-Rite Development concluded accounts receivable financial agreements with a bank. The agreements declared that the companies should be responsible for the risk of accounts receivable not being collected. As of June 30, 2005, accounts receivable amounted to $84,676 thousand and $62,640 thousand was pledged to secure short-term bank borrowing (see Notes 14 and 29).

7. OTHER RECEIVABLES

Other receivables as of June 30, 2005 consist of the following:

Advances for related parties (see Note 28)	$ 152,891
Receivable on disposal of long-term equity investments	39,440
Retention for sales of accounts receivable (see Note 6)	99,636
Other	231,696
	$ 523,663

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

8. OTHER FINANCIAL ASSETS, CURRENT

Other financial assets, current as of June 30, 2005 consist of the following:

Financing deposit (see Note 5)	$ 46,583
Futures deposit	1,726
Receivable on short selling stock (see Note 5)	51,494
Receivable on forward contracts, net (see Note 31)	84,177
Other	32,035
	$ 216,015

9. INVENTORIES

Inventories as of June 30, 2005 consist of the following:

Merchandise	$ 3,445,263
Construction in progress	85,848
	3,531,111
Less valuation allowance	(145,447)
	$ 3,385,664

As of June 30, 2005, inventory amounted to $34,397 thousand was pledged to secure short-term bank borrowing (see Notes 14 and 29).

As of June 30, 2005, insurance coverage for merchandise amounted to $2,469,998 thousand and for construction in progress amounted to $922,800 thousand.

Construction in progress is Chung Cin's inventories.

10. LONG-TERM INVESTMENTS

Long-term investments as of June 30, 2005 consist of the following:

	Original Accumulated Cost	Carrying Value	Ownership Percentage
At equity method			
Test-Rite Int'l (Mexico) Ltd.	$ 672	$ 219	49.00
St. Finesse, Inc.	43,200	44,360	30.00
	43,872	44,579	
At cost method			
Hwa Jan International Co., Ltd. (Samoa)	9,612	9,612	19.00
TB Commerce Network Co., Ltd.	31,900	31,618	10.59
Test-Rite Int'l (Baparoma) Ltd.	64,670	-	10.00
Grandcathy Venture Capital Co., Ltd.	40,000	40,000	5.00
NCTU Springl Technology Capital Co., Ltd.	12,036	12,036	4.69
Emit Technology Co., Ltd.	18,070	18,070	4.58
Yuan Chuang Co., Ltd.	5,000	3,302	1.67
Techgains Pan-Pacific Co., Ltd.	18,956	18,956	1.61
Quartz Frequency Technology Co., Ltd.	7,500	7,500	1.29
Highlight Optoelectronics Inc.	3,713	3,713	0.88
Taiwan Finance Co., Ltd.	2,120	2,120	0.04
He Qiao Technology Co., Ltd.	253	253	0.003
	213,830	147,180	
	$ 257,702	191,759	
Bonds investment			
Core Pacific - Yamaichi	$ 21,556	21,556	
CMS Interest Principal Guaranteed Notes	3,158	3,158	
	$ 24,714	24,714	
Real estate investment			
Land		10,228	
Buildings and improvement		5,634	
		15,862	
Accumulated depreciation		(1,031)	
		14,831	
Other long-term investments			
Beneficiary certificates C of real estate investment	$ 114,124	114,124	
Beneficiary certificates of Credit Lyonnais, Paris	31,000	31,000	
	$ 145,124	145,124	
		$ 376,428	

Equity in earnings or losses of investee companies accounted for by the equity method is recognized based on financial statements of the investees for the same period reported on by the Company. From January 1, 2005, the Company changed to recognize investment income from TR Mexico for the same period. The effect of the change amounted to $137 thousand investment income.

Equity in earnings (losses) of TR Mexico and St. Finesse for the six-month period ended June 30, 2005 which were not based on reviewed financial statements are summarized as follows:

TR Mexico	$ (466)
St. Finesse	3,253
	$ 2,787

TR Mexico is engaged in importation and exportation.

St. Finesse, Inc. is engaged in sale of cigar and wines.

Hwa Jan International Co., Ltd. (Samoa) is engaged in making investments in various industries.

TB Commerce Network Co. is engaged in researching electronic business software.

TR Baparoma is engaged in the designing, manufacturing and marketing of cooking equipment.

Grandcathy Venture Capital Co., Ltd. and NCTU Spring Technology Capital Co., Ltd. are engaged in making venture capital investments in technology industries.

Emit Technology Co., Ltd. is engaged in the manufacturing, assembling and sale of optical fiber components, parts and accessories.

Yuan Chuang Co., Ltd. is engaged in making investment in various industries.

Techgains Pan-Pacific Co., Ltd. is engaged in investing in technology industries.

Quartz Frequency Technology Co., Ltd. (“Quartz Frequency”) is engaged in manufacturing of quartz and mobile machine.

Highlight Optoelectronics Inc. (“Highlight”) is engaged in manufacturing of light emitter diode (“LED”).

He Qiao Technology Co., Ltd. is engaged in importation and exportation, manufacturing of thin film media and superpolished substrate.

Taiwan Finance Co., Ltd. is engaged as broker and dealer of commercial paper.

Bonds investment in Core Pacific - Yamaichi: issue period from February 26, 2002 to February 15, 2008; interest is paid monthly; US$100,000 dollars per unit.

Bonds investment in CMS Interest Principal Guaranteed Notes: issue period from December 6, 2004 to December 6, 2019; interest is paid monthly; US$100,000 dollars per unit.

Real estate investment of Lih Teh has been rented to third parties. The rental income for the six-month period ended June 30, 2005 amounted to $390 thousand which was reported as other revenue.

Beneficiary certificates C of real estate investment: issue period from September 9, 2004 to September 9, 2011; $180,000 thousand per unit. Chung Cin Enterprise is the original issuer organization, and provided $27,000 thousand to the preparation account of the trust bank that was reported as refundable deposits.

Beneficiary certificates of Credit Lyonnais, Paris: issue period from September 29, 2003 to September 29, 2008.

The Company recognized loss of $1,198 thousand on reduction of capital in long-term equity investments and permanent devaluation loss $64,670 thousand on long-term equity investments - cost method (see Note 27).

11. OTHER FINANCIAL ASSETS, NONCURRENT

Other financial assets as of June 30, 2005 consist of the following:

Prepaid income tax (see Note 26)	$ 18,583
Refundable deposits	578,775
Others	1,272
	$598,630

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of June 30, 2005 consist of the following:

	Original Cost	Accumulated Depreciation	Carrying Value
Land	$ 773,813	$ -	$ 773,813
Buildings and improvements	1,576,245	396,194	1,180,051
Machinery equipment	491,753	323,890	167,863
Transportation equipment	64,217	40,449	23,768
Furniture, fixtures and office equipment	288,418	161,579	126,839
Computers and accessories	195,864	78,161	117,703
Leasehold improvements	4,515,673	1,289,412	3,226,261
Molds and tools	97,705	71,595	26,110
Other equipment	207,453	121,975	85,478
Construction in progress and prepayments for property, plant and equipment	47,289	-	47,289
	$8,258,430	$2,483,255	$5,775,175

As of June 30, 2005, the cost of the leased-out land was $200,169 thousand and the carrying value of leased-out buildings and improvements was $647,288 thousand.

As of June 30, 2005, the carrying value of property, plant and equipment pledged to secure bonds payable and long-term debt was as follows (see Note 20):

Land	$267,519

As of June 30, 2005, insurance coverage for property, plant and equipment, excluding land and prepayments for property, plant and equipment, amounted to $7,151,384 thousand.

13. OTHER ASSETS

Other assets as of June 30, 2005 consist of the following:

Deferred pension cost	$ 1,318
Deferred charges (see Note 2)	113,479
Patents (see Note 2)	598
Deferred tax asset, noncurrent (see Note 26)	190,441
Prepaid pension cost	12,126
Goodwill (see Note 2)	46,463
Other	56,980
	$421,405

Deferred charges are mainly the expenditure of computer softwares for e-trading and issuing expense of bonds.

14. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings as of June 30, 2005 consist of the following:

	Interest Rate %	Amount
Unsecured loans	1.35~4.44	$ 2,088,529
Secured loans	4.64~5.481	1,024,663
		$ 3,113,192

The amount of $832,135 thousand was guaranteed by Test-Rite International Co., Ltd., Tong Ho and Judy Lee and $84,676 thousand and $34,397 thousand was secured by the accounts receivable and inventory of TR Int’l (U.S.) Co., Ltd. The amount of $73,455 thousand was secured by the accounts receivable of TR Development Co., Ltd. (see Notes 6 and 9)

15. SHORT-TERM OBLIGATIONS

Short-term obligations as of June 30, 2005 consist of the following:

	Interest Rate %	Amount
Commercial paper, unsecured	1.31~1.36	$ 200,000

16. OTHER PAYABLES

Other payables as of June 30, 2005 consist of the following:

Accrued expenses	$ 574,036
Other notes payable	14,478
Cash dividend payable	662,304
Bonuses payable to directors and supervisors	14,911
Bonuses payable to employees	4
Payables for purchase of property, plant and equipment	23,049
Other	239,840
	$ 1,528,622

17. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as of June 30, 2005 consist of the following:

Bonds payable (see Note 19)	$ 440,000

18. OTHER CURRENT LIABILITIES

Other current liabilities as of June 30, 2005 consist of the following:

Value-added tax payable	$ 12,355
Receipts under custody	4,557
Estimated warranty liabilities	12,141
Allowance for indemnity losses on exports (see Note 2)	13,129
Financing payable (see Note 5)	51,494
Discount on forward exchange contract, net	24,503
Other	34,550
	$ 152,729

19. BONDS PAYABLE

Bonds payable as of June 30, 2005 consist of the following:

Domestic unsecured bonds (Bond I)	$ 440,000
Domestic convertible bonds (Bond II)	179,900
Interest expense compensation payable	10,897
Less current portion	(440,000)
	$ 190,797

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. The bonds' annual contract rate is index rate plus 1.2% and 0.8%, respectively, and the compound interest is paid quarterly. The interest rate of the bonds with maturity of $440,000 thousand is changed to single interest 6.41% per annum from February 4, 2000.

The restricted certificate of deposit which was pledged to secure the bond of $440,000 thousand was taken back in December 2004, and Test-Rite did not provide other collateral to the Trust Bank. Therefore, the nature of the bond was changed to unsecured.

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 $13.70 dollars per share and the conversion price will be adjusted to $11.5 dollars per share at August 23, 2005. The conversion price is subject to adjustment based on changes of Test-Rite's capital account or the market value which 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 June 30, 2005, Test-Rite's bondholders have converted bonds into 22,502,242 common shares, which resulted in $99,857 thousand additional paid-in capital.

20. LONG-TERM DEBT

Long-term debt as of June 30, 2005 consists of the following:

	Interest Rate %	Amount
International Bank of Taipei		
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%	2.175	$ 261,400
Pledged loan from November 1, 2004 to November 1, 2006. In February and May, the Company paid the principal in advance of the due date.	-	-
Taipei Bank		
Unsecured loan from July 25, 2003 to July 25, 2008. Interest is paid monthly, principal due on July 25, 2008. Interest rate is discount rate plus 0.90%	2.530	300,000
Credit Lyonnais		
Unsecured loan from September 29, 2003 to September 29, 2008. Interest is paid monthly, principal due on September 29, 2008. Interest rate is 2.79%	2.79	500,000
East Asia Bank		
Unsecured loan from February 25, 2005 to February 25, 2008, the first installment on August 25, 2006 and principal due in half year installment. Interest rate is 2.40%.	2.40	60,000
Taishin International Bank		
Unsecured loan from January 24, 2005 to December 10, 2009. Interest is paid monthly, principal due on December 10, 2009.	3.05~3.07	244,126
E. Sun Bank		
Unsecured loan from September 3, 2004 to September 3, 2007, the first installment on September 3, 2005 and due in quarterly installment. In April, the Company paid the principal in advance of the due day.	-	-
		1,365,526
Less current portion		-
		$ 1,365,526

See Note 12 for collateral on bank borrowing in 2005.

See Note 28 for guarantee on bank borrowing in 2005.

21. OTHER LIABILITIES

Other liabilities as of June 30, 2005 consist of the following:

Customers deposits	$ 16,801
Deferred profit on sale-leaseback	96,877
Accrued pension cost	26,858
Others	11,197
	$ 151,733

TR U.S. sold a piece of real property for a gain. The real property was then leased back under a 10-year operating lease. Consequently, profit amounted to $187,409 thousand from the sale-leaseback of real property is being deferred and amortized as a reduction of rental expense over the lease term of 10 years. Current portion of deferred profit on sale-leaseback was transferred as other current liability - other. Future minimum lease obligations are due monthly and are disclosed in Note 32.

22. CAPITAL STOCK

Test-Rite's capital stock as of June 30, 2005 consists of the following:

Registered capital:	
Share (thousand shares)	550,000
Par value (in dollars)	$ 10
Capital	$ 5,500,000
Issued capital:	
Share (thousand shares)	398,297
Par value (in dollars)	$ 10
Capital	$ 3,982,967

Test-Rite's outstanding capital stock as of January 1, 2005, amounted to $3,973,113 thousand. For the six-month period ended June 30, 2005, Test-Rite's bondholders have converted bonds amounting to $13,500 thousand into 985,386 common shares amounting $9,854 thousand. Consequently, as of June 30, 2005, Test-Rite's capital stock was increased to $3,982,967 thousand consisting of 398,296,733 outstanding common shares having a par value of $10 dollars each.

In their June 14, 2005 meeting, the stockholders decided to distribute retained earnings as follows:

	Distributions of Earnings	Dividends Per Share (In Dollars)
Legal reserve	$ 82,839	-
Cash dividends	662,304	1.80
Stock dividends	73,589	0.20
Bonuses to employees – stock	59,640	-
Bonuses to director and supervisors – cash	14,911	-

From the 2004 retained earnings, bonuses to employees of $59,640 thousand, and stock dividends of $73,589 thousand, total $133,229 thousand for transfer to outstanding capital stock were appropriated. As the legal process is not completed, it was included in stock dividends to be distributed as of June 30, 2005.

For the six-month period ended June 30, 2005, earnings per share is calculated as follows:

	Amount (Numerator)			Earnings per Share (In Dollars)	
	Income Before Tax Include Minority	Parent Co. Stockholders Income After Tax	Shares (Denominator)	Income Before Tax Include Minority	Parent Co. Stockholders Income After Tax
Net income	$ 691,192	$ 353,530			
Basic earnings per share					
Net income to stockholders of common stock	$ 691,192	$ 353,530	367,673,064	$ 1.88	$ 0.96
The effects of dilutive potential ordinary shares					
Convertible bonds with real interest rate of 3.50%	6,296	4,722	13,131,387	(0.05)	(0.02)
Diluted earnings per share					
Net income to stockholders of common stock and the effects of potential ordinary shares	$ 697,488	$ 358,252	380,804,451	$ 1.83	$ 0.94

As the distribution date is August 23, 2005, additional weighted average number of common shares outstanding of 13,322,927 was taken into consideration. For the six-month period ended June 30, 2005, earnings per share after giving retroactive effects is calculated as follows:

	Amount (Numerator)			Earnings per Share (In Dollars)	
	Income Before Tax Include Minority	Parent Co. Stockholders Income After Tax	Shares (Denominator)	Income Before Tax Include Minority	Parent Co. Stockholders Income After Tax
Net income	$ 691,192	$ 353,530			
Basic earnings per share					
Net income to stockholders of common stock	$ 691,192	$ 353,530	380,995,991	$ 1.81	$ 0.93
The effects of dilutive potential ordinary shares					
Convertible bonds with real interest rate of 3.50%	6,296	4,722	13,131,387	(0.04)	(0.02)
Diluted earnings per share					
Net income to stockholders of common stock and the effects of potential ordinary shares	$ 697,488	$ 358,252	394,127,378	$ 1.77	$ 0.91

Regarding the 2004 retained earnings proposition by the board of directors and the approval of 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 have proposed and approved the distribution from 2004 earnings of $59,640 thousand as stock bonuses to employees (represents 1.50% of the outstanding common share at the year end of 2004) and of $14,911 thousand as bonuses to directors and supervisors. In 2004, the earnings per share after income tax (before retroactive adjustment for stock dividends in 2005) was $2.26 dollars. However, if the earnings distribution to employees, directors, and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax is $2.06 dollars.

23. 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.

24. TREASURY STOCK

The changes of treasury stock for the six-month period ended June 30, 2005 are summarized as follows (in shares):

Reason	2005.1.1	Increase	Decrease	2005.6.30
Buy the stock back to transfer to employees	30,000,000	-	-	30,000,000
Shares held by Quality Master	21,490	-	-	21,490
	30,021,490	-	-	30,021,490

As of June 30, 2005, the treasury stock of Test-Rite was 30,021,490 shares, cost $546,510 thousand, including $546,238 thousand bought by Test-Rite and $272 thousand held by Quality Master.

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 June 30, 2005 was 30,000,000 shares and the total amount was $546,238 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.

25. PERSONNEL, DEPRECIATION, DEPLETION AND AMORTIZATION EXPENSES

Personnel, depreciation, depletion and amortization expenses for the six-month period ended June 30, 2005 are summarized as follows:

Function / Expense Item	Operating Cost	Operating Expense	Total
Personnel expense			
Salary	17,542	1,139,322	1,156,864
Labor/health insurance	1,057	80,159	81,216
Pension	-	28,021	28,021
Other	1,068	146,797	147,865
Depreciation	31,527	244,746	276,273
Depletion	-	3,640	3,640
Amortization	-	48,525	48,525

26. INCOME TAX

The components of income tax expense for the six-month period ended June 30, 2005 are as follows:

Current income tax expenses	$199,937
Estimated 10% of income tax on 2004 undistributed earnings	13,368
Deferred tax asset adjustment	2,542
Change in adjustment of valuation allowance	(21,400)
Adjustment of prior years' tax expenses	(2,917)
Income tax expense	$191,530

The tax effects of deductible temporary differences that gave rise to deferred tax assets as of June 30, 2005 are as follows:

Unrealized inventory devaluation losses	$ 4,985
Unrealized net exchange gain	(14,718)
Unrealized indemnity losses	3,000
Unrealized profit from intercompany transactions	17,000
Unrealized sales allowance	10,000
Permanent decline in value of long-term equity investments	16,000
Losses carryforward	44,930
Pension cost financial and tax difference	791
Unrealized loss from equity investment of parent company	190,000
Other	7,219
	279,207
Less valuation allowance	(23,130)
Total current and noncurrent	256,077
Less noncurrent portion	(190,441)
Deferred tax assets, current	$ 65,636

Current income tax for the six-month period ended June 30, 2005 and income tax payable as of June 30, 2005 are generated as follows:

Income tax expense at statutory rate	$172,798
Increase in tax resulting from other	27,139
Current tax expense	199,937
Other	(2,647)
Income tax payable	197,290
Add estimated 10% of income tax on 2004 undistributed earnings	13,368
Less prepayments and withholdings in 2005	(1,878)
Add income tax payable for the prior years	22,536
Income tax payable as of June 30, 2005	$231,316

The reported prepaid income tax and withholdings of $18,583 thousand as of June 30, 2005 is 2005 and prior year's income tax prepayments.

Losses carryforward as of June 30, 2005 for income tax purposes are as follows:

Year Expired	Amount
2006	$21,400
2007	6,000
2008	12,980
2009	1,300
2010	3,250
	$44,930

The information of Test-Rite about Imputation Credit ("IC") on the undistributed earning as of June 30, 2005 was summarized as follows:

IC on undistributed earnings as of June 30, 2005	$165,704
Undistributed earnings in years from 1997 and before	$222,231
Undistributed earnings in years from 1998 and after	$303,211
Expected IC ratio on distributed earnings in 2005	33.52%
Actual IC ratio on distributed earnings in 2004	14.31%

The calculation of the expected 2005 IC ratio includes estimated income tax expense in 2004.

27. NET INVESTMENT LOSS

Net investment loss (gain) for the six-month period ended June 30, 2005 is summarized as follows:

Recovery from devaluation in marketable securities (see Note 5)	$ (190)
Loss on decreased capital stock of long-term equity investments (see Note 10)	1,198
Permanent decline in value of long-term equity investments (see Note 10)	64,670
Cash dividends received from investments	(3,825)
	$61,853

28. RELATED PARTY TRANSACTIONS

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

Name	Relationship
Test-Rite Int'l (Mexico) Ltd. ("TR Mexico")	The Company holds 49.00% ownership interest
CENDYNE	The Company holds 50.00% ownership interest
Up Master Investment Co., Ltd. ("Up Master")	Same chairman as Test-Rite
X-Cel Relationship Management Co., Ltd.	Related party in substance
Compass Home	Related party in substance
Tony Ho	Chairman of Test-Rite
Judy Lee	Test-Rite's managing director

The Company's transactions with its related parties are summarized as follows:

Operating Revenues

Operating revenues from related parties for the six-month period ended June 30, 2005 are summarized as follows:

	Amount	%
Sales		
Compass Home	$213,231	1

The Company’s sales revenue from foreign parties is received by T/T, accounts receivable is about 120 days and annual interest rate is 6.00% and the condition of receivable is almost the same as the other clients.

Interest Income

Interest income from related parties for the six-month period ended June 30, 2005 is summarized below:

	Amount	%
Compass Home	$ 433	2

Selling, General and Administrative Expenses - Commission Expenses

Commission expenses to related parties for the six-month period ended June 30, 2005 are summarized below:

	Amount	%
TR Mexico	$ 4,177	-

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

Selling, General and Administrative Expenses - Rental Expenses

Rental expenses to related parties for the six-month period ended June 30, 2005 are summarized below:

	Amount	%
Up Master	$ 3,850	-
X-Cel Relationship Management	675	-
	$ 4,525	-

Rental expenses to related parties are according to market price and the rental expenses are paid monthly.

Due from Related Parties

Due from related parties as of June 30, 2005 are summarized below:

Accounts Receivable

	Amount	%
Compass Home	$179,144	10

Advances for Related Parties

	Amount	%
CENDYNE	$150,246	98
TR Mexico	2,466	2
Up Master	179	-
	$152,891	100

Due to Related Parties

Due to related parties as of June 30, 2005 are summarized below:

Accrued Commission Expenses

	Amount	%
TR Mexico	$ 1,158	-

Payment of Credit Guarantees

As of June 30, 2005, long-term debt and short-term bank borrowings of $1,254,716 thousand were guaranteed by Tony Ho and Judy Lee.

29. PLEDGED ASSETS

Assets pledged for various purpose as of June 30, 2005 are summarized as follows:

Accounts receivable (see Note 6)	$147,316
Inventories (see Note 9)	34,397
Land (see Note 12)	267,519
	$449,232

30. COMMITMENTS AND CONTINGENCIES

Letter of Credit

Test-Rite's outstanding letters of credit not reflected in the accompanying financial statements as of June 30, 2005 are US$4,716 thousand.

Chung Cin entered into construction contract with a construction company. As of June 30, 2005, according to the agreement, the remaining balance $187,000 thousand will be paid according to completion of construction.

As of June 30, 2005, bank provided customs duties guarantee to B&Q of $5,000 thousand.

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.

31. OTHERS

According to Statement of Financial Accounting Standards (‘SFAS”) No. 27, “Disclosure of Financial Instruments,” derivative financial instruments of Test-Rite as of June 30, 2005 are summarized as follows:

Nominal Amount and Credit Risk

The forward exchange contract as of June 30, 2005 is summarized below:

Financial Instruments	Type	Nominal Amount (In Thousands)	Credit Risk
Non-trading purpose			
Forward exchange	Sale	US$ 21,000	-
	Buy	US$ 2,700	-

The option contracts as of June 30, 2005 are summarized below:

		Contract Amount	Call Option	Put Option	Exchange Rate	Maturity Day	Credit Risk
Sell option contract							
Trading purpose							
Option	US$	5,000	USD	JPY	105.1	2005.12.15~ 2005.12.19	-
	EUR	15,000	EUR	USD	1.22~1.375	2005.08.15~ 2006.01.03	-
	EUR	5,000	USD	EUR	1.198~1.24	2005.09.02~ 2005.12.07	-
Non-trading purpose							
Option	US$	46,000	USD	NTD	29.8~31.60	2005.07.05~ 2006.01.05	-
Cross currency swap	US$	49,000	NTD	USD	30.559~33.507	2005.07.11~ 2005.10.13	-
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	2006.02.27	-

Test-Rite 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 June 30, 2005, the receivable and payable derived from foreign exchange contracts are summarized below:

Forward exchange contract receivable	$ 21,096,678
Less forward exchange contract payable	(21,012,501)
Receivable on forward contracts, net	$ 84,177

Foreign exchange gain of the Company from derivative financial instruments for the six-month period ended June 30, 2005 amounted to $144,304 thousand, which was reported as non-operating income - exchange gains.

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments as of June 30, 2005 is summarized as follows:

	Carrying Value	Fair Value
Assets		
Cash and cash equivalents	$1,214,346	$1,214,346
Short-term investments	970,189	970,189
Notes receivable	7,844	7,844
Accounts receivable	1,566,589	1,566,589
Accounts receivable from affiliates	179,144	179,144
Other receivable	523,663	523,663
Other current financial assets	216,015	216,015
Long-term investments	376,428	429,594
Other financial assets	598,630	598,630
Liabilities		
Short-term bank borrowings	3,113,192	3,113,192
Short-term obligations	200,000	200,000
Notes payable	14,898	14,898
Accounts payable	2,031,806	2,031,806
Other payable	1,528,622	1,528,622
Other current financial liabilities	89,119	89,119
Long-term liabilities	1,556,323	1,556,323
Other financial debt	43,659	43,659

The fair value of derivative financial instruments as of June 30, 2005 is summarized as follows:

	Carrying Value	Fair Value
Unsettled option transaction	$ (11,068)	$ (11,068)
Buy forward exchange asset	114,637	114,637
Sell forward exchange liability	55,069	55,069

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, 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.

32. OPERATING LEASE

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

Lease object: The land of warehouse center in Ne-Whu.
Lease period: From October 16, 1998 to October 15, 2018.
Limitation: None
List of rent expense that should be paid each year in the future 5 years as of June 30, 2005:

Period	Amount
2005	$ 61,043
2006	62,874
2007	64,760
2008	66,703
2009	68,704
	$324,084

List of rent expense and its present value for each 5 years after 2010 as of June 30, 2005:

Period	Amount	Present Value
2010~2014	$375,703	$298,292
2015~2018	324,374	220,570
	$700,077	$518,862

B&Q entered into lease agreements for office premise as follows:

List of rent expense that should be paid each year in the future 5 years and the present value of rentals for each 5 years after 2010 as of June 30, 2005:

Period	Amount
2005	$ 443,166
2006	870,952
2007	877,056
2008	914,102
2009	957,479
2010~2014 (present value $4,419,301)	5,030,272
2015~2019 (present value $2,906,868)	3,521,866
2020~2024 (present value $1,198,307)	1,564,964
	$14,179,857

Chung Cin Enterprise's 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 2010 to 2025 as of June 30, 2005:

Period	**Amount**
2005	$ 6,697
2006	13,394
2007	13,394
2008	13,394
2009	13,394
2010~2025	200,910
	$261,183

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 2010 to 2012 as of June 30, 2005:

Period	**Amount**
2005	$ 36,598
2006	65,607
2007	56,912
2008	53,118
2009	49,956
2010~2012	143,862
	$406,053