Test-Rite International Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2009 and 2008 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, 2009 and 2008, 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, 2009 and 2008, 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 described in Note 3 to the consolidated financial statements, effective January 1, 2008, Test-Rite International Co., Ltd. and subsidiaries adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by Accounting Research and Development Foundation of the Republic of China.

April 12, 2010

<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, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

ASSETS	2009 Amount	2009 %	2008 Amount	2008 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 1,320,281	6	$ 1,263,656	5
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	728,973	3	327,983	1
Available-for-sale financial assets, current (Notes 2 and 6)	11,150	-	6,017	-
Notes receivable (Notes 2 and 7)	68,846	-	41,758	-
Accounts receivable (Notes 2 and 7)	1,552,457	7	2,519,052	11
Other receivables (Note 8)	306,480	1	1,113,447	5
Other financial assets, current	6,077	-	101,422	-
Inventories (Notes 2 and 9)	4,085,163	19	3,889,197	17
Prepayments	669,292	3	672,137	3
Other current assets	219,275	1	261,030	1
Total current assets	8,967,994	40	10,195,699	43
LONG-TERM INVESTMENTS				
Long-term equity investments at equity method (Note 10)	147	-	1	-
Investments in real estate (Note 11)	14,378	-	14,478	-
Available-for-sale financial assets, noncurrent (Note 12)	24,540	-	33,926	-
Held to maturity financial assets, noncurrent (Note 13)	-	-	7,397	-
Financial assets carried at cost, noncurrent (Note 14)	131,624	1	133,751	1
Bond investments with no active market, noncurrent (Note 15)	50,000	-	-	-
Total long-term investments	220,689	1	189,553	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 16)				
Cost				
Land	654,435	3	657,485	3
Buildings and improvements	1,400,831	6	1,283,875	6
Machinery and equipment	1,193,106	5	1,427,008	6
Transportation equipment	104,899	1	103,702	-
Other equipment	7,584,127	34	7,036,486	30
Total cost	10,937,398	49	10,508,556	45
Revaluation increments	104,515	-	104,515	-
Less accumulated depreciation	(5,215,474)	(23)	(4,674,311)	(20)
Prepayments for property, plant and equipment	378,258	2	438,738	2
Property, plant and equipment, net	6,204,697	28	6,377,498	27
INTANGIBLE ASSETS (Note 2)				
Patent	17	-	10	-
Computer software cost	29,523	-	17,193	-
Goodwill	3,645,499	17	3,538,799	15
Deferred pension cost (Notes 2 and 24)	33,369	-	38,862	-
Total intangible assets	3,708,408	17	3,594,864	15
OTHER ASSETS (Notes 2 and 17)				
Refundable deposits paid	783,089	4	835,111	4
Deferred income tax assets, noncurrent (Note 29)	915,330	4	864,154	4
Restricted assets, noncurrent (Note 4)	35,380	-	-	-
Other assets - others	1,386,477	6	1,478,146	6
Total other assets	3,120,276	14	3,177,411	14
TOTAL	$ 22,222,064	100	$ 23,535,025	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2009 Amount	2009 %	2008 Amount	2008 %
CURRENT LIABILITIES				
Short-term bank borrowings (Note 18)	$ 3,004,346	13	$ 4,551,213	19
Short-term bills payable (Note 19)	80,000	-	95,000	1
Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	21,678	-	80,672	-
Notes payable	8,364	-	74,453	-
Accounts payable	2,878,529	13	2,578,341	11
Income tax payable (Notes 2 and 29)	168,325	1	191,592	1
Other payables (Note 20)	1,283,446	6	1,334,544	6
Advance receipt	267,698	1	252,131	1
Current portion of long-term liabilities (Note 22)	346,983	2	542,070	2
Other current liabilities (Note 21)	404,442	2	417,498	2
Total current liabilities	8,463,811	38	10,117,514	43
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss, noncurrent (Note 5)	11,130	-	18,445	-
Long-term debt (Note 22)	5,019,035	23	4,946,872	21
Liability component of preferred stocks, noncurrent (Note 23)	318,631	1	308,175	2
Total long-term liabilities	5,348,796	24	5,273,492	23
ESTIMATED ACCRUED LAND VALUE INCREMENT TAX PAYABLE	36,740	-	36,740	-
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 24)	252,574	1	225,562	1
Refundable deposits received	2,125	-	28,828	-
Deferred credit (Note 16)	1,643,519	8	1,878,308	8
Other liabilities - others	27,571	-	63,093	-
Total other liabilities	1,925,789	9	2,195,791	9
Total liabilities	15,775,136	71	17,623,537	75
EQUITY ATTRIBUTED TO STOCKHOLDERS OF THE PARENT				
Capital stock (Note 25)				
Common stock	5,312,228	24	4,736,660	20
Capital surplus				
Additional paid-in capital	721,731	3	520,130	2
Retained earnings (Note 26)				
Legal reserve	692,933	3	669,551	3
Unappropriated earnings	140,945	1	240,749	1
Other adjustments of stockholders' equity				
Cumulative translation adjustments	120,332	-	121,037	1
Net loss not recognized as pension costs	(55,422)	-	(35,928)	-
Unrealized holding loss on available-for-sale financial asset	(267)	-	(9,385)	-
Treasury stock (Notes 2 and 27)	(897,297)	(4)	(897,297)	(4)
	6,035,183	27	5,345,517	23
MINORITY INTEREST	411,745	2	565,971	2
Total stockholders' equity	6,446,928	29	5,911,488	25
TOTAL	$ 22,222,064	100	$ 23,535,025	100

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

(With Deloitte & Touche audit report dated April 12, 2010)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Note 2)	$ 29,047,650	100	$ 32,732,587	100
OPERATING COST	20,707,371	71	23,868,464	73
GROSS PROFIT	8,340,279	29	8,864,123	27
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,934,431	28	8,415,071	26
INCOME FROM OPERATIONS	405,848	1	449,052	1
NON-OPERATING INCOME				
Interest income	34,104	-	52,424	-
Investment income recognized under equity method (Notes 2 and 10)	-	-	81	-
Gain on disposal of property, plant and equipment (Note 16)	636	-	118,033	-
Gain on disposal of investments, net	-	-	5,423	-
Foreign exchange gain, net	109,984	1	142,900	1
Gain on valuation of financial assets	23,114	-	-	-
Gain on valuation of financial liabilities	45,347	-	-	-
Others	238,652	1	140,221	1
Total non-operating income	451,837	2	459,082	2
NON-OPERATING EXPENSES				
Interest expenses	222,847	1	415,133	1
Investment loss recognized under equity method (Notes 2 and 10)	3,077	-	-	-
Loss on disposal of property, plant and equipment	4,747	-	15,085	-
Loss on disposal of investments, net	11,463	-	-	-
Amortization of liability component of preferred stocks, noncurrent	10,456	-	-	-
Dividends paid on liability component of preferred stocks, noncurrent	14,000	-	3,251	-
Impairment loss (Note 13)	1,880	-	33,085	-
Loss on valuation of financial assets	-	-	5,788	-
Loss on valuation of financial liabilities	-	-	73,180	-
Others	202,117	1	106,608	1
Total non-operating expenses	470,587	2	652,130	2
INCOME BEFORE INCOME TAX	387,098	1	256,004	1

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Amount	**%**	**Amount**	**%**
PROVISION FOR INCOME TAX (Notes 2 and 29)	(153,695)	-	(76,099)	-
TOTAL CONSOLIDATED NET INCOME	$ 233,403	1	$ 179,905	1
ATTRIBUTED TO				
Parent company's stockholders	$ 136,771	1	$ 285,113	1
Minority interest	96,632	-	(105,208)	-
	$ 233,403	1	$ 179,905	1

	2009		2008	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
BASIC EARNINGS PER SHARE (Notes 2 and 25)				
Basic earnings per share including minority interest	$ 0.87	$ 0.52	$ 0.58	$ 0.41
Basic earnings per share attributed to parent company's stockholders		$ 0.31		$ 0.64
DILUTED EARNINGS PER SHARE (Notes 2 and 25)				
Diluted earnings per share including minority interest	$ 0.86	$ 0.52	$ 0.57	$ 0.40
Diluted earnings per share attributed to parent company's stockholders		$ 0.31		$ 0.64

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

(With Deloitte & Touche audit report dated April 12, 2010) (Concluded)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	Capital Stock	Capital Surplus		Retained Earnings		Other Adjustments of Stockholders' Equity					
	Common Stock	Additional Paid-in Capital	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, 2008	$ 4,652,434	$ 520,130	$ 30,966	$ 611,866	$ 586,185	$ 76,895	$ (16,964)	$ (13,107)	$ (337,716)	$ 2,068,042	$ 8,178,731
Appropriation and distribution of 2007 net income (Note 25)											
Legal reserve	-	-	-	57,685	(57,685)	-	-	-	-	-	-
Cash bonuses to directors and supervisors	-	-	-	-	(10,383)	-	-	-	-	-	(10,383)
Stock bonuses to employees	41,530	-	-	-	(41,533)	-	-	-	-	-	(3)
Stock dividends	42,696	-	-	-	(42,696)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(426,963)	-	-	-	-	-	(426,963)
Effect of changes in percentage of ownership of long-term equity investments	-	-	(30,966)	-	(51,289)	-	-	-	-	82,255	-
Cumulative translation adjustments on long-term equity investments	-	-	-	-	-	44,142	-	-	-	(309)	43,833
Net loss not recognized as pension cost	-	-	-	-	-	-	(18,964)	-	-	(13,939)	(32,903)
Unrealized valuation gain of available-for-sale financial assets	-	-	-	-	-	-	-	3,722	-	(2,284)	1,438
Equity component of preferred stocks, noncurrent	-	-	-	-	-	-	-	-	-	25,690	25,690
Increase in treasury stock (Note 27)	-	-	-	-	-	-	-	-	(559,581)	-	(559,581)
Minority interest	-	-	-	-	-	-	-	-	-	(1,488,276)	(1,488,276)
Total consolidated income for 2008	-	-	-	-	285,113	-	-	-	-	(105,208)	179,905
BALANCE, DECEMBER 31, 2008	4,736,660	520,130	-	669,551	240,749	121,037	(35,928)	(9,385)	(897,297)	565,971	5,911,488
Appropriation and distribution of 2008 net income (Note 25)											
Legal reserve	-	-	-	23,382	(23,382)	-	-	-	-	-	-
Stock dividends	63,958	-	-	-	(63,958)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(149,235)	-	-	-	-	-	(149,235)
Transfer of bonuses to employees to capital stock (Note 25)	11,610	5,724	-	-	-	-	-	-	-	-	17,334
Issuance of common stock for cash (Note 25)	500,000	185,000	-	-	-	-	-	-	-	-	685,000
Issuance of common stock reserved for stock option to employees (Note 25)	-	10,877	-	-	-	-	-	-	-	-	10,877
Cumulative translation adjustments on long-term equity investments	-	-	-	-	-	(705)	-	-	-	(1,114)	(1,819)
Net loss not recognized as pension costs	-	-	-	-	-	-	(19,494)	-	-	(718)	(20,212)
Unrealized valuation gain of available-for-sale financial assets	-	-	-	-	-	-	-	9,118	-	1,740	10,858
Minority interest	-	-	-	-	-	-	-	-	-	(250,766)	(250,766)
Total consolidated income for 2009	-	-	-	-	136,771	-	-	-	-	96,632	233,403
BALANCE, DECEMBER 31, 2009	$ 5,312,228	$ 721,731	$ -	$ 692,933	$ 140,945	$ 120,332	$ (55,422)	$ (267)	$ (897,297)	$ 411,745	$ 6,446,928

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

(With Deloitte & Touche audit report dated April 12, 2010)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Total consolidated net income	$ 233,403	$ 179,905
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization for deferred charges on long-term debt	450	2,242
Depreciation and amortization	856,344	792,010
Interests on liability component of preferred stocks, noncurrent	10,456	3,251
(Gain) loss on financial assets valuation	(23,114)	5,788
(Gain) loss on financial liabilities valuation	(45,347)	73,180
Investment loss (gain) recognized under equity method	3,077	(81)
Net loss on disposal of available-for-sale financial assets, noncurrent	4,751	7,052
Impairment loss	1,880	33,085
Net loss (gain) on disposal of property, plant and equipment	4,111	(102,948)
Loss on abandoned property, plant and equipment	11	-
Amortization for the unrealized gain on sale-leaseback	(234,788)	(234,788)
Compensation cost on issuance of common stock for cash	10,877	-
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	(377,876)	161,264
Available-for-sale financial assets, current	-	11,242
Held-to-maturity financial assets, current	-	36,124
Financial assets carried at cost, current	-	3,094
Notes receivable	(27,088)	23,101
Accounts receivable	966,595	452,689
Other receivables	805,398	(183,630)
Other financial assets, current	78,642	(76,195)
Inventories	(195,966)	297,065
Prepayments	2,845	94,379
Deferred income tax assets, current	(713)	(9,556)
Other current assets	42,468	(78,711)
Deferred income tax assets, noncurrent	(51,176)	16,541
Other assets	57,412	(219,945)
Financial liabilities at fair value through profit or loss, current	(13,647)	(17,775)
Notes payable	(66,089)	(52,207)
Accounts payable	300,904	(571,415)
Income tax payable	(23,267)	(180,353)
Other payables	(62,498)	93,878
Advance receipt	15,567	(49,494)
Other current liabilities	(13,056)	(36,537)
Financial liabilities at fair value through profit or loss, noncurrent	(7,315)	18,445
Other liabilities	(23,108)	(41,505)
Net cash provided by operating activities	2,230,143	449,195
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in financing deposit	17,983	(19,995)

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
Increase in long-term equity investments	(1,615)	-
Decrease in available-for-sale financial assets, noncurrent	10,360	109,901
Decrease in held to maturity financial assets	4,237	-
Proceeds from decreased in capital stock of financial assets carried at cost	2,041	2,267
Decrease (increase) in financial assets carried at cost, noncurrent	86	(617)
Acquisition of bond investments without active market, noncurrent	(50,000)	-
Acquisition of property, plant and equipment	(1,262,689)	(977,985)
Proceeds from disposal of property, plant and equipment	679,605	1,019,170
Increase in goodwill	(106,700)	(1,934,253)
Decrease (increase) in refundable deposits paid	52,022	(47,056)
Increased in restricted assets	(35,380)	-
Increase in deferred charges	(72,327)	(71,354)
Net cash used in investing activities	(762,377)	(1,919,922)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank borrowings	(1,546,867)	(368,918)
(Decrease) increase in short-term bills payable	(15,000)	65,000
(Decrease) increase in long-term debt	(105,590)	2,188,942
(Decrease) increase in refundable deposits received	(26,703)	3,622
Redemption of series A preferred stocks	-	(490,904)
Proceeds from issuance of series B preferred stocks	-	350,000
Issuance of common stock for cash	685,000	-
Increase in treasury stock	-	(559,581)
Payment of cash dividends	(149,235)	(426,963)
Cash bonus to directors, supervisors and employees	-	(10,383)
Decrease in minority interest	(250,766)	(1,488,276)
Net cash used in financing activities	(1,409,161)	(737,461)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,980)	43,611
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	56,625	(2,164,577)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,263,656	3,428,233
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,320,281	$ 1,263,656
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest	$ 221,826	$ 399,392
Income tax	$ 251,738	$ 256,861

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Translation adjustments on long-term equity investments	$ 161	$ 222
Transfer of long-term equity investments to deferred credits	$ (122)	$ 123
Current portion of long-term liabilities	$ 346,983	$ 542,070
Bonuses payable to employees	$ -	$ 3
Unrealized gain (loss) on available-for-sale financial assets, current	$ 5,134	$ (5,226)
Unrealized gain on available-for-sale financial assets, noncurrent	$ 5,724	$ 6,664
Net loss not recognized as pension costs	$ (20,212)	$ (32,903)
CASH PAID DURING THE YEAR FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment acquired	$ 1,273,373	$ 984,658
Add liabilities for acquisition of property, plant and equipment at the beginning of year	65,897	59,224
Deduct liabilities for acquisition of property, plant and equipment at the end of year	(76,581)	(65,897)
Cash paid during the year for acquisition of property, plant and equipment	$ 1,262,689	$ 977,985
CASH RECEIVED DURING THE YEAR FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		
Proceeds from disposal of property, plant and equipment	$ 3,280	$ 349,201
Add receivable from disposal of property, plant and equipment at the beginning of year	676,325	1,346,294
Deduct receivable from disposal of property, plant and equipment, current, at the end of year	-	(676,325)
Cash received during the year from disposal of property, plant and equipment	$ 679,605	$ 1,019,170

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

(With Deloitte & Touche audit report dated April 12, 2010) (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 (%) 2009.12.31	Effective Holding (%) 2008.12.31	Reasons for not Including in the Consolidated Financial Statement in 2009 and 2008
Fortune Miles Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	100.00	
Test-Rite Fortune Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	100.00	
Test-Rite Star Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	100.00	
Test-Rite Investment (B.V.I.) Co., Ltd.	Directly held 100.00%	Investment in various industries	100.00	100.00	
Test-Rite Retailing Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	100.00	
B&S Link Co., Ltd. (Cayman)	Directly held 100.00%	Investment holding company	100.00	100.00	
Test-Rite Trading Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	100.00	
TRS Investment Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	100.00	
Test-Rite Pte Ltd.	Directly held 100.00%	Importation and exportation	100.00	100.00	
Test-Rite Product (Hong Kong) Ltd.	Directly held 100.00%	Importation and exportation	100.00	100.00	
Test-Rite Int'l (Australia) Pty Ltd.	Directly held 100.00%	Importation and exportation	100.00	100.00	
Test-Rite Vietnam Co., Ltd.	Directly held 100.00%	Importation and exportation	100.00	-	Established in May 2009
Test-Rite Canada Co., Ltd.	Directly held 100.00%	Importation and exportation	100.00	-	Established in August 2009
Test-Rite Development Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	95.93	
Test-Rite Int'l (U.S.) Co., Ltd.	Directly held 49.00% and controllable investee	Importation and exportation	49.00	49.00	
Test-Rite Int'l (Thailand) Ltd.	Directly held 48.99% and controllable investee	Importation and exportation	48.99	48.99	
Lih Chiou Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	100.00	
Lih Teh International Co., Ltd.	Directly held 100.00%	Logistics services	100.00	100.00	
B&S Link Co., Ltd.	Directly held 100.00%	Providing information software and electronic information	100.00	100.00	
Fusion International Distribution, Inc.	Directly held 100.00%	Importation and exportation	100.00	100.00	
Chung Cin Enterprise Co., Ltd.	Directly held 100.00%	Authorized builder to build dwelling, rental and sale of building	100.00	100.00	
Test-Rite Retail Co., Ltd. (original Test-Rite B&Q Co., Ltd.)	Directly and indirectly held 100.00%	Sale of house decoration hardware and construction materials	100.00	100.00	

(Continued)

Subsidiaries	Relationship with Parent Company	Main Business	Effective Holding (%)		Reasons for not Including in the Consolidated Financial Statement in 2009 and 2008
			2009.12.31	2008.12.31	
Tong Lung Metal Industry Co., Ltd.	Directly and indirectly held 66.11%	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	66.11	66.11	
Test-Rite Quickbuy Co., Ltd.	Lih Teh International held 100%	Sale of articles for daily use	100.00	100.00	
Covalue Consultant Co., Ltd.	Lih The International held 80.00%	Consultant of business operation	80.00	80.00	
Tony Construction Co., Ltd.	Chung Chin Enterprise held 100.00%	Build and civil engineering	100.00	100.00	
Test Cin M&E Engineering Co., Ltd.	Chung Chin Enterprise held 100.00%	Mechanical and electronic engineering	100.00	100.00	
Chung Cin Interior Design Construction Co., Ltd.	Chung Chin Enterprise held 100.00%	Interior design	100.00	100.00	
Tony Investment Co., Ltd.	Tony Construction held 100.00%	Investment in various industries	100.00	100.00	
Viet Han Co., Ltd.	Chung Chin Enterprise held 51.00%	Importation and exportation	51.00	51.00	
Test-Rite Home Service Co., Ltd. (original B&Q Indoor Decoration & Renovation Co., Ltd.)	Test-Rite Retail held 100.00%	Interior design	100.00	100.00	
Lucky International (SAMOA) Ltd.	Tong Lung Metal Industry held 100%	Investment	66.11	66.11	
Goodwill Trading Ltd.	Tong Lung Metal Industry held 100%	Investment	-	66.11	Liquidated in October 2009
Instant Luck International Ltd.	Tong Lung Metal Industry held 100%	Investment	-	66.11	Liquidated in July 2008
U2 Industry Design Co., Ltd.	Directly held 64.00%	Product design	-	64.00	Sold in March 2008

(Concluded)

As of December 31, 2009 and 2008, Test-Rite and subsidiaries (collectively, the “Company”) have 6,753 and 6,826 employees, respectively.

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, 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, allowance for indemnity losses and bonuses to employees, directors and supervisors. Actual results could differ from these estimates.

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 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 2009 and 2008, please see Note 1.

a. The information of subsidiaries not included in the consolidated financial statements for 2009 and 2008: All subsidiaries were included.

b. The difference of the fiscal period between parent company and subsidiaries: None.

c. Special risks of business operation for subsidiaries overseas: None.

Current/Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Cash and Cash Equivalents

Cash equivalents, consisting of commercial paper, bank acceptances and repurchase agreements collateralized by bonds, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

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, oversea mutual fund, and REITs are the published fair value per unit at the balance sheet date. The fair value of bonds is determined by prices quoted by the Taiwan GreTai Securities Market.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

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

Before January 1, 2009, inventories were stated at the lower of cost or market value (net realizable value). Any write-down was made on a category by category basis. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs necessary to make the sale. Inventories are recorded using the moving average method; the allowance for inventory devaluation is established by examining the inventory aging and turnover ratio on the balance sheet date.

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.

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 an investee company issues new shares and the Company does not purchase new shares proportionately, then the ownership percentage and the equity in net assets of the investee will be changed. Such difference will be adjusted in the additional paid-in capital and the long-term equity investments accounts. If the adjustment stated above is to debit the additional paid-in capital account and the balance of additional paid-in capital from long-term equity investments is not enough to be offset, retained earnings will be debited for the remaining amount.

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.

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. All regular way purchase or sale of financial assets are recognized and derecognized on a trade date basis.

Marketable securities are stated at the closing price at the balance sheet date. Open-end mutual fund and REITs are stated at the published fair value per unit at the balance sheet date.

The recognition, derecognition and the fair value base of available-for-sale financial assets are similar to those of financial assets at FVTPL.

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.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

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

Bond investments with fixed or determinable payments and with no quoted prices in an active market are carried at amortized cost using the effective interest method. They are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior 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	3-60 years
Machinery and equipment	2-20 years
Transportation equipment	1-5 years
Furniture, fixtures and office equipment	3-10 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.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may 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 recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU(s)") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For long term equity investments for which the Company has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

Intangible Assets

Computer software is amortized on the straight-line method over a three-year period. Patents are amortized on the straight-line method over a five-year period.

Deferred Charges

Deferred charges are amortized on the straight-line method over 2 to 5 years. Deferred charges on bonds issue cost are amortized evenly through the issuing 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.

Convertible Preferred Stocks

Convertible preferred stocks issued after January 1, 2006 should be accounted for in accordance with Statement of Financial Accounting Standards No. 36, "Financial Instruments: Disclosure and Measurement." Embedded derivatives, such as conversion option and put option with economic characteristics and risks that are not closely related to the economic characteristics and risks of the host contract are separated from the host contract. Conversion option, giving stockholders contractual right to receive a fixed number of the Company's common stock for a fixed stated principal amount of the preferred stocks, is initially recognized at fair value as "capital surplus - conversion option." Put option is initially recognized as "financial liabilities at fair value through profit or loss." When fair value is subsequently measured, the changes in fair value are recognized in current income. The carrying value of host contract is measured at amortized cost using the effective interest rate method and recognized as "liability component of preferred stock;" the related interest expense is recognized as current income.

When the preferred stockholders exercise the conversion option, the Company shall adjust the carrying value of "financial liabilities at fair value through profit or loss" to fair value and "liability component of preferred stock" to amortized cost by the effective interest rate method. The aforesaid carrying value of the preferred stocks and put option is credited to capital stock accounts as well as "capital surplus - conversion option."

If the preferred stockholders can exercise put option within one near year after the balance sheet date, liability component of preferred stocks and the embedded derivative shall be classified as current liabilities. However, when the put option expires, unexercised liability component of preferred stocks and the embedded derivatives shall be reclassified to noncurrent liabilities.

If the put option expires without exercise, the carrying amount of the put option is reclassified to capital surplus if the market value of convertible share is higher than the strike price; otherwise, the put option shall be credited or charged to current income.

Retirement Plan

Pension cost under a defined benefit plan is determined by actuarial valuations. If the amount contributed to the plan assets by the employer is less than the net pension cost, then the difference shall be recognized as an accrued pension liability; and if the amount contributed is larger, then the difference shall be recognized as a prepaid pension cost. If the amount of additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation, then the deferred pension cost account shall be charged; if the amount of additional liability exceeds the sum, the excess shall be charged to the net loss not yet recognized as net pension cost account.

Curtailment or settlement gains or losses of the defined benefit plan are recognized as part of the net periodic pension cost for the year.

Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Shared-based Payment - Employee Remuneration

According to the Company Law, the Company is required to reserve a portion of shares for employee option plan when issuing common stocks for cash. Under Statement of Financial Accounting Standards No. 39 (SFAS No. 39) and Interpretation 2007-267 both issued by the ARDF, the Company shall recognize the value of the reserved shares as an expense. Employee stock options granted are accounted for under SFAS No. 39, which provides that the value of equity instruments granted shall be measured at fair value. Test-Rite measures the fair value of employee stock option granted by Black-Scholes Model. The inputs to the model are the best available estimate of exercise price, expected life, grant-date share price, expected volatility, expected dividend yield and risk-free interest rate.

When issuing common stocks for cash, only employees of Test-Rite are entitled to receive equity-settled share-based payment. According to SFAS No. 39, the Company shall measure the fair value of goods or services received at the fair value of the options granted and recognize the corresponding increase in stockholders' equity accordingly. If the equity instruments granted are not limited to vesting conditions, they are considered as vesting immediately. If equity instruments vest after employees have completed a specified period of service, the Company shall recognize the services received during vesting period and the corresponding increase in stockholders' equity. In this case, the Company shall recognize the services received and the corresponding increase in stockholders' equity immediately.

Test-Rite's plan on issuance of common stocks for cash was in accordance with Article 267 of the Company Law. The law requires the Company to reserve 10% to 15% of shares for employee stock option plan. Under the ARDF issued Interpretation 2007-267, the Company shall recognize salary expenses and capital surplus - employee stock options in accordance with grant-date fair value of equity instruments. After issuing stocks for employee stock options, the Company shall reclassify recognized capital surplus - employee stock options to capital surplus - additional paid-in capital.

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 consolidated income tax of the Company is the summary of the income tax of the consolidated entities. 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.

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 share is computed by dividing the amount of net income (or loss) attributable to common stock outstanding for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is the amount of earnings (or loss) attributable to each share of common stock under the assumption that all dilutive potential common shares have been converted, exercised or that all contingently issuable shares have been issued.

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.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2009.

3. ACCOUNTING CHANGE

Accounting for Inventories

On January 1, 2009, the Company adopted the newly revised SFAS No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; and (2) write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption did not have any effect on the Company's net income for the year ended December 31, 2009. For comparison purposes, the Company also reclassified nonoperating expense - provision for inventory devaluation of $41,403 thousand and nonoperating expense - loss on physical inventory count of $45,519 thousand to cost of goods sold for the year ended December 31, 2008.

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, the ARDF issued Interpretation 2007-052 that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of $57,767 thousand in income before income tax, a decrease of $43,325 thousand in consolidated net income for the year ended December 31, 2008.

Accounting for Share-based Payment

Effective January 1, 2008, the Company adopted the newly released SFAS No. 39, "Accounting for Share-based Payment" to account for employee stock options. The adoption did not have any effect on the Company's net income for the year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Petty cash	$ 38,218	$ 35,573
Checking deposits	159,076	6,284
Savings deposits	561,802	423,679
Foreign currency deposits	516,548	764,833
Time certificates of deposit	44,637	33,287
	$ 1,320,281	$ 1,263,656

According to the terms and conditions of issuing series B convertible preferred stocks, Tong Lung shall set up a restricted time certificates of deposit account with cash which shall be, but not yet, transferred to special reserve. Therefore, as of December 31, 2009, the time certificates of deposit amounting to $35,380 thousand were reclassified to restricted assets, noncurrent. Please refer to Note 17.

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Financial assets held for trading		
Equity securities marketable on Taiwan Stock Exchange and in the over-the-counter market	$ 3,025	$ 33,902
Open-end funds	713,103	258,435
Offshore mutual funds	2,848	3,681
Real estate funds	2,993	2,818
Corporate bonds mutual funds	4,245	6,447
Receivable on forward contracts, net	107	156
Receivable on short selling stock	2,652	22,544
	$ 728,973	$ 327,983
Financial liabilities held for trading - current		
Payable on forward contracts, net	$ 19,026	$ 58,128
Payable on short selling stock	2,652	22,544
	$ 21,678	$ 80,672
Financial liabilities held for trading - noncurrent		
Put option on convertible preferred stock (Note 23)	$ 11,130	$ 18,445

As of December 31, 2009 and 2008, short selling in the investment amounted to $2,652 thousand and $22,544 thousand was included in both financial assets at fair value through profit or loss, current and financial liabilities at fair value through profit or loss, current. The deposits for short selling amounted to $2,401 thousand and $20,384 thousand were included in financing deposits under other financial assets, current.

The Company entered into derivative contracts during the years ended December 31, 2009 and 2008 to manage exposures to exchange rate fluctuations. The financial risk management objective of the Company is to minimize risks due to changes in fair value or cash flows.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

Available-for-sale financial assets, current as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Equity securities listed in open market	$ 1,554	$ 884
Benefit certificate of domestic funds	9,596	5,133
	$ 11,150	$ 6,017

7. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Non-related parties		
Notes receivable	$ 68,846	$ 41,758
Less allowance for doubtful accounts	-	-
	68,846	41,758
Accounts receivable	1,562,631	2,521,138
Less allowance for doubtful accounts	(10,174)	(2,086)
	1,552,457	2,519,052
	$ 1,621,303	$ 2,560,810

Test-Rite concluded an accounts receivable factoring agreement with Taishin International Bank in June 2009. The agreement declared that the bank has no right of further recourse against Test-Rite. According to the agreement, the bank should pay 90% of the proceeds to Test-Rite at the time of sale. Test-Rite only has to be responsible for loss that resulted from business disputes.

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, the factor may charge back Test-Rite Int'l (U.S.) Co., Ltd. for any accounts not paid in full when due for any reason other than credit risk.

For the years ended December 31, 2009 and 2008, the accounts receivable factoring is summarized as follows:

(Unit: US$ in Dollars; NT$ in Thousands)

Counter-Parties	Balance at Beginning of Year	Factoring During the Year	Amounts Collected During the Year	Balance at End of Year (Note 1)	Balance at End of Year of Advances Received	Interest Rates on Advances Received (%)	Credit Line	Collateral
2009								
Taishin International Bank	$ -	$ 69,132 (Note 2)	$ 31,698 (Note 3)	$ 37,434 (Note 4)	$ 33,691 (Note 5)	1.43	US$11,200,000	US$1,120,000
UPS	377,047 (Note 6)	1,938,220 (Note 7)	2,031,221 (Note 8)	284,046 (Note 9)	248,635 (Note 10)	90 day Libor +3%	-	-
2008								
CIT GROUP & UPS	406,478 (Note 11)	3,639,705 (Note 12)	3,659,355 (Note 13)	386,828 (Note 14)	313,123 (Note 15)	JP Morgan basic loan rate minus 0.25% or 3% annually	-	-

Note 1: Balance at end of year of factored receivables had been deducted from accounts receivable.
Note 2: US$2,158,367.
Note 3: US$989,642.
Note 4: US$1,168,725.
Note 5: US$1,051,853.
Note 6: US$11,771,673.
Note 7: US$60,512,648.
Note 8: US$63,416,190.
Note 9: US$8,868,131.
Note 10: US$7,762,557.
Note 11: US$12,370,425.
Note 12: US$110,764,205.
Note 13: US$111,362,957.
Note 14: US$11,771,673.
Note 15: US$9,528,628.

The above credit lines may be used on a revolving basis.

Retention for factoring was reported under other receivables (see Note 8).

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, 2009 and 2008, accounts receivable of $65,387 thousand and $55,287 thousand were pledged to secure short-term bank borrowing (see Notes 18 and 31).

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, 2008, accounts receivable of $23,095 thousand were pledged to secure short-term bank borrowing (see Notes 18 and 31).

8. OTHER RECEIVABLES

Other receivables as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Retention for factoring (see Note 7)	$ 39,154	$ 73,705
Commissions receivable	18,822	7,705
Value-added tax refunds receivable	11,027	31,354
Receivables from related parties (see Note 30)	5,683	5,096
Receivables from disposal of property, plant and equipment, current	-	676,325
Others	231,794	319,262
	$ 306,480	$ 1,113,447

Receivables from related parties include amounts related to operating expense paid by Test-Rite on behalf of its related parties.

Others mainly include miscellaneous expenses paid by Test-Rite on behalf of its suppliers.

9. INVENTORIES

Inventories as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Merchandise - retail sale	$ 2,636,546	$ 2,486,107
Merchandise - trade	842,156	780,494
Raw materials	349,562	410,734
Work-in-process	104,565	115,919
Finished goods	41,888	15,622
Merchandise - manufacturing	6,849	6,958
Construction in progress	103,597	73,363
	$ 4,085,163	$ 3,889,197

As of December 31, 2009 and 2008, the allowance for inventory devaluation was $114,033 thousand and $119,838 thousand, respectively. The cost of inventories recognized as cost of goods sold for the years ended December 31, 2009 and 2008 was $19,087,859 thousand and $21,897,797 thousand, respectively. The cost of inventories of $19,087,859 thousand included $16,852 thousand of write downs of inventories and $50 thousand of loss on physical inventory count for the year ended December 31, 2009; the cost of inventories of $21,897,797 thousand included $41,403 thousand of write downs of inventories and $45,519 thousand of loss on physical inventory count for the year ended December 31, 2008.

Merchandise - retail sale is the inventories of TR Retailing and Test-Rite Retail.

Merchandise - trade is the inventories of Test-Rite, TR Trading, Test-Rite Pte. Ltd., TR Hong Kong, TR Australia, TR Development, Test-Rite Int’l (U.S.), TR Thailand, Chung Cin Enterprise Co., Ltd. and Tony Construction Co., Ltd.

Raw materials, work-in-process, finished goods and merchandise - manufacturing are the inventories of Tong Lung.

Construction in progress is the inventories of Tony Construction Co., Ltd., Chung Cin Interior Design Construction Co., Ltd., and Viet Han Co., Ltd.

10. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

Long-term equity investments at equity method as of December 31, 2009 and 2008 consist of the following:

	2009			2008	
	Original Accumulated Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
At equity method					
Test-Rite Int’l (Mexico) Ltd.	$ 2,287	$ 147	49.00	$ 1	49.00

Equities in (loss) earnings of TR Mexico for the years ended December 31, 2009 and 2008 are summarized as follows:

	2009	2008
TR Mexico	$ (3,077)	$ 81

TR Mexico is engaged in importation and exportation.

11. INVESTMENTS IN REAL ESTATE

	2009	2008
Land	$ 10,228	$ 10,228
Buildings and improvement	5,633	5,633
	15,861	15,861
Accumulated depreciation	(1,483)	(1,383)
	$ 14,378	$ 14,478

Real estate investments of Lih Teh for the years ended December 31, 2009 and 2008 amounting to $14,378 thousand and $14,478 thousand, respectively, have been rented to a third party. The rental income for the years ended December 31, 2009 and 2008 amounting to $909 thousand and $883 thousand was reported as other revenue.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

	2009	2008
Deposit funds of real estate	$ 30,000	$ 30,000
Equity securities listed in Taiwan Stock Exchange	-	15,526
Unrealized loss on available-for-sale financial assets	(5,460)	(11,600)
	$ 24,540	$ 33,926

13. HELD-TO-MATURITY FINANCIAL ASSETS, NONCURRENT

	2009	2008
CMS Interest Principal Guaranteed Notes	$ -	$ 3,300
Core Pacific - Yamaichi II	3,160	4,097
	3,160	7,397
Less current portion of held to maturity financial assets	(1,280)	-
Less impairment loss recognized	(1,880)	-
	$ -	$ 7,397

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. The interest rate is 10% for the first two years and is fluctuated from the third year. Interest is paid quarterly. The Company redeemed the Notes in full in advance in December 2009.

Core Pacific - Yamaichi II bonds were issued with terms from February 16, 2002 to March 27, 2010 with a face value of US$100 thousand and interest rate of 9%. Interest is paid monthly. However, according to the report issued by a reinsurance corporation dated December 2009, Yamaichi II bonds' recoverable amount was merely $1,280 thousand. Thus, the recoverable amount of $1,280 thousand was reclassified as other receivables and the rest of $1,880 thousand recognized as impairment loss.

14. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

	2009			2008	
	Original Accumulated Cost	Carrying Value	Ownership Percentage%	Carrying Value	Ownership Percentage%
Hwa Jan International Co., Ltd. (Samoa)	$ 9,849	$ 9,737	19.00	$ 9,989	19.00
TEPRO	430	415	10.00	-	-
Grandcathy Venture Capital Co., Ltd.	40,000	40,000	5.00	40,000	5.00
NCTU Springl Technology Capital Co., Ltd.	9,032	9,032	4.69	10,832	4.69
Emit Technology Co., Ltd.	10,842	10,842	4.58	10,842	4.58
Yuan Chuang Co., Ltd.	2,166	2,166	1.00	2,407	1.00
Techgains Pan-Pacific Co., Ltd.	19,191	19,080	0.81	19,329	0.81
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.	64,400	27,400	1.57	27,400	1.57
Hong Da Electronic Co., Ltd.	2,000	-	0.72	-	0.72
China Semiconductor Co., Ltd.	767	546	0.42	546	0.42
Yieh United Steel Co., Ltd.	3,920	3,920	0.02	3,920	0.02
Shanghai Commercial & Saving Bank, Ltd.	1,903	1,903	-	1,903	-
	$ 171,083	$ 131,624		$ 133,751	

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

15. BOND INVESTMENTS WITH NO ACTIVE MARKET, NONCURRENT

	2009			2008	
	Original Accumulated Cost	Carrying Value	Ownership Percentage%	Carrying Value	Ownership Percentage%
Subordinated bond of Ta Chong Bank	$ 50,000	$ 50,000	-	$ -	-

Subordinated bond of Ta Chong Bank: The face value per unit is $10,000 thousand and the total value is $50,000 thousand; the issuance date is November 27, 2006; interest rate is 5.5% for the first ten years and is increased to 6.5% from the eleventh year if the bonds have not been redeemed. Interest is paid annually.

16. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2009 and 2008 consist of the following:

	2009				2008
	Original Cost	Revaluation Increments	Accumulated Depreciation	Carrying Value	Carrying Value
Land	$ 654,435	$ 104,515	$ -	$ 758,950	$ 762,000
Buildings and improvements	1,400,831	-	328,883	1,071,948	1,003,319
Machinery and equipment	1,193,106	-	863,301	329,805	163,176
Transportation equipment	104,899	-	64,291	40,608	45,292
Furniture, fixtures and office equipment	596,865	-	374,342	222,523	549,372
Leasehold improvements	5,859,248	-	2,696,405	3,162,843	2,974,176
Molds and tools	134,656	-	58,867	75,789	16,846
Other equipment	993,358	-	829,385	163,973	424,579
Construction in progress and prepayments for property, plant and equipment	378,258	-	-	378,258	438,738
	$ 11,315,656	$ 104,515	$ 5,215,474	$ 6,204,697	$ 6,377,498

Test-Rite: As of December 31, 2009 and 2008, the cost of the leased-out land was $267,519 thousand and $267,519 thousand and the carrying value of leased-out buildings and improvements was $253,281 thousand and $262,544 thousand, respectively.

Revaluation increments are recognized on Tong Lung Metal Industry Co., Ltd.

On December 21, 2007, Test-Rite sold a real property and leased it back immediately in consideration of business strategies. Based on generally accepted accounting principles, the profit from the sale and leaseback is required to be deferred and recognized evenly during the lease term. As of December 31, 2007, Test-Rite recorded $2,347,885 thousand unrealized gain, which is amortized during 10-year lease term. For the years ended December 31, 2009 and 2008, the amortization of unrealized gain was $234,788 thousand, which was treated as a reduction of rental cost and rental expense. As of December 31, 2009 and 2008, the unrealized gain was $1,878,308 thousand and $2,113,097 thousand, respectively. Based on the liquidity of the unrealized gain, $234,789 thousand was recorded under other current liability on both dates and $1,643,519 thousand and $1,878,308 thousand, respectively, were recorded under other liabilities - deferred credit.

Tong Lung: In April 2008, the sale of the land and buildings located in Taipei to a third party increased net gain on disposal of property, plant and equipment by $114,854 thousand. The selling price of the land and buildings was based on the evaluation from a professional consulting company.

As of December 31, 2009 and 2008, the carrying value of property, plant and equipment pledged to secure long-term debt and provided as collaterals to bank was as follows (see Note 31):

	2009	2008
Land	$ 208,875	$ 208,875
Buildings and improvements	323,685	168,700
	$ 532,560	$ 377,575

17. OTHER ASSETS

Other assets as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Deferred tax asset, noncurrent (see Note 29)	$ 915,330	$ 864,154
Refundable deposits paid	783,089	835,111
Deferred charges (see Note 2)	320,505	353,863
Restricted assets (see Note 4)	35,380	-
Others	1,065,972	1,124,283
	$ 3,120,276	$ 3,177,411

18. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings as of December 31, 2009 and 2008 consist of the following:

	2009		2008	
	Interest Rate %	Amount	Interest Rate %	Amount
Unsecured loans	1.10-7.50	$ 2,705,092	1.90-7.00	$ 4,279,292
Secured loans	1.126-5.103	299,254	1.90-2.30	228,382
Loans payable		-	0.25-1.00	43,539
		$ 3,004,346		$ 4,551,213

As of December 31, 2009, secured loan of $65,387 thousand was secured by the accounts receivable of TR Int'l (U.S.) Co., Ltd. and $130,000 thousand was secured by the land and buildings and improvements of Tong Lung Metal Industry Co., Ltd. Secured loan of $103,867 thousand was secured by buildings and improvements of Jiashan Te-Cheng Wood Industrial Co., Ltd. (see Notes 7 and 31).

As of December 31, 2008, secured loan of $55,287 thousand was secured by the accounts receivable of TR Int'l (U.S.) Co., Ltd. Secured loan of $23,095 was secured by the accounts receivable of TR Development Co., Ltd. and $150,000 thousand was secured by the land and buildings and improvements of Tong Lung Metal Industry Co., Ltd. (see Notes 7 and 31).

19. SHORT-TERM BILLS PAYABLE

Short-term bills payable as of December 31, 2009 and 2008 consist of the following:

	2009		2008	
	Interest Rate %	Amount	Interest Rate %	Amount
Commercial paper, unsecured	1.088	$ 80,000	2.952-2.966	$ 95,000

20. OTHER PAYABLES

Other payables as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Accrued expenses	$ 749,968	$ 877,853
Payables for purchase of property, plant and equipment	76,581	65,897
Other notes payable	31,596	32,001
Bonuses payable to employees	19,856	30,455
Bonuses payable to directors and supervisors	11,760	14,578
Interest payable	4,112	15,965
Others	389,573	297,795
	$ 1,283,446	$ 1,334,544

21. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2009 and 2008 consist of the following:

	2009	2008
Unrealized gain on sale-leaseback (Note 16)	$ 234,789	$ 234,789
Accrued VAT payable	20,860	14,231
Receipts under custody	18,706	20,371
Allowance for indemnity losses on exports (see Note 2)	3,446	1,444
Others	126,641	146,663
	$ 404,442	$ 417,498

22. LONG-TERM DEBT

Long-term debt as of December 31, 2009 and 2008 consists of the following:

	2009		2008
	Interest Rate	Amount	Amount
Bank SinoPac Co., Ltd.			
Unsecured loan from January 2, 2008 to January 2, 2011. Interest is paid monthly, principal due on January 2, 2011.	1.21	$ 500,000	$ 500,000
Chang Hwa Bank			
Unsecured loan from May 19, 2008 to May 19, 2011. Interest is paid monthly, principal due on quarterly installment.	1.54	200,000	333,333
Taishin International Bank			
Unsecured loan from June 25, 2008 to December 31, 2009 and from July 20, 2009 to July 20, 2011. Interest is paid monthly, principal due on July 20, 2011.	1.80	200,000	200,000

(Continued)

	2009		2008
	Interest Rate	Amount	Amount
Ta Chong Bank			
Unsecured loan from May 16, 2008 to November 30, 2012. Interest is paid monthly, principal due on November 30, 2012.	1.37	$ 600,000	$ 600,000
Shanghai Commercial & Savings Bank			
Unsecured loan from December 17, 2007 to December 17, 2011, the first installment on December 17, 2009 and principal due in quarterly installments. Interest is paid monthly.	1.535	200,000	200,000
Unsecured loan from February 1, 2008 to March 1, 2010. Interest is paid monthly, principal due on monthly installment.	2.25-3.9	600	2,800
Land Bank's Syndicate Loan			
Unsecured loan from July 26, 2007 to July 25, 2012, September 20, 2007 to July 25, 2012, January 2, 2008 to July 25, 2012, June 24, 2008 to July 25, 2012, June 3, 2009 to July 25, 2012, and June 9, 2009 to July 25, 2012. Interest is paid monthly, principal due on July 25, 2012. Interest rate is current interest rate plus 0.6%. The authorized credit line of $300 million or US$85 million may be used on revolving basis for a period until July 25, 2012.	1.1547	2,500,000	3,000,000
Yuanta Bank			
Pledged loan from December 11, 2008 to December 10, 2011. Interest is paid monthly, principal due on quarterly installment. On December 11, 2009, the Company paid the principal of $100,000 thousand in advance.	3.75	300,000	600,000
First Sino Bank			
Pledged loan from June 24, 2008 to June 23, 2013. Interest is paid monthly. Principal is paid evenly every month for 50 times starting from two years after the day of the first borrowing.	6.732	45,418	52,809
Taiwan Business Bank			
Unsecured loan from October 26, 2009 to October 26, 2014. The authorized credit line is $2,160,000 thousand, principal due on October 26, 2014.	1.80	820,000	-
		5,366,018	5,488,942
Less current portion		(346,983)	(542,070)
		$ 5,019,035	$ 4,946,872

(Concluded)

As of December 31, 2009, Test-Rite promised to maintain the financial covenants according to the loan agreements respectively as the following:

Bank SinoPac Co., Ltd.

a. Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1. (Total liabilities should exclude other current liabilities and other liabilities - deferred credit that resulted from sales leaseback.)

b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.

c. EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.

d. Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than $5,200,000 thousand.

e. The calculations of the ratios are based on the Test-Rite financial statements for years ended December 31.

Taishin International Bank

a. Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1. (Liability ratio is total liabilities minus unrealized gain on sales leaseback of office premises divided by tangible assets.)

b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.

c. The calculations of the ratios are based on the Test-Rite financial statements for years ended December 31.

Ta Chong Bank

a. Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1.

b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.

c. EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.

d. Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than $5,200,000 thousand.

e. The calculations of the ratios are based on the Test-Rite financial statements for years ended December 31.

Land Bank's Syndicate Loan

a. Leverage Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Tangible Net Worth of not more than 2 to 1. (Total liabilities are total liabilities on the balance sheet plus credit guarantees and minus the unrealized gain on sales leaseback of office premises.)

b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.

c. EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.

d. Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than $5,200,000 thousand.

e. The calculations of the ratios are based on the Test-Rite financial statements for years ended December 31.

According to the loan agreement, Lih Chiou has to maintain certain financial condition as follows:

a. Lih Chiou needs to examine if it maintains $60,000 thousand in its time certificates of deposits every three months. If Lih Chiou does not meet the condition, the interest of the loan will be increased to a fixed interest rate of 4.25% until the next time when the time certificates of deposits are examined.

b. Test-Rite Retail has to transfer cash dividends distributed every year to the bank account of Yuanta Bank.

According to the loan agreement, Test-Rite Retail has to maintain certain financial as follows:

a. Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1.

b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.

c. EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 3 to 1.

See Note 31 for collaterals on bank borrowings.

See Note 30 for guarantees on bank borrowings.

23. LIABILITY COMPONENT OF PREFERRED STOCKS - NONCURRENT

	2009	2008
Private placement of liability component of series B preferred stocks	$ 318,631	$ 308,175

Private Placement of Liability Component of Preferred Stocks

On October 6, 2008, Tong Lung decided to issue series B convertible preferred stocks to buy back series A preferred stocks (October 24, 2003-October 23, 2008.) There were 8,750,000 shares of series B preferred stocks (with par value of $10 dollars per share) issued to local entities at forty dollars per share and on October 8, 2008, total proceeds from this issuance amounting to $350,000 thousands had been collected. Terms and conditions, which were stated in Tong Lung’s shareholders’ meeting on June 19, 2008, are summarized as follows:

a. Issue period: The convertible preferred stocks will be due five years from the issuance date (from October 8, 2008 to October 7, 2013.)

b. Dividends: The dividends for the convertible preferred stocks are 4% per annum. The dividends will be paid out in cash after earnings proposition is approved. When the preferred stocks are not held for one full year, at year end, dividends will be adjusted accordingly.

c. Conversion ratio: One share of preferred stocks can be converted to one share of common stocks of the Issuer.

d. Converting preferred stocks to common stocks of the Issuer

1) Converting preferred stocks, in whole but not in part: From the issuance date to 120 days prior to the maturity date, preferred stockholders shall require the Issuer in preferred stockholders' meeting, held upon preferred stockholders' request, to repurchase all preferred stocks.

2) Converting preferred stocks, in whole or in part: The preferred stocks are convertible, in whole or in part, at any time during the conversion period from the issuance date to 120 days prior to the maturity days. At the end of each conversion period, if potential converted preferred stocks are less than 15% in principal amount of preferred stocks originally outstanding, the conversion will not take effect. The preferred stockholders will then be notified by the security agent to retrieve their stocks and related documents.

e. Paying the dividends in arrears

1) After a year that the Issuer carries a net loss or does not have sufficient earnings for distribution, the dividends in arrears is accumulated and paid out the next year prior to distribution to common stockholders. Ways of handling dividends in arrears of preferred stocks, which are redeemed by the Issuer and converted to common stocks of the Issuer by stockholders, are specified in (2) and (3), respectively:

2) Preferred stocks redeemed by the Issuer: Dividends in arrears are calculated up to the date when the preferred stocks are redeemed by the Issuer.

3) Preferred stocks converted to common stocks by preferred stockholders: Dividends in arrears shall be paid in cash with no interests on the first dividend grant date subsequent to the date of conversion. In the case that the Issuer is prohibited by regulation to pay the dividends, the Issuer should pay such dividends in arrears with no interest to the stockholders on the first dividend grant date subsequent to the date when the regulation is lifted.

f. Redemption of preferred stock prior to the maturity date

On the First to Tenth of April, July and December during the period from 3 years after the issuance date to 90 days prior to the maturity date, the convertible preferred stocks shall be redeemed, in whole or in part, at forty dollars per share plus any dividends in arrears.

g. Mandatory conversion prior to the maturity date

The Issuer may redeem the convertible preferred stocks, in whole or in part, if at least 95% in principal amount of preferred stocks have already been redeemed or converted.

h. Maturity date

Unless previously redeemed or converted, the preferred stocks will be redeemed at forty dollars per share. After the conversion, the converting preferred stockholders shall be registered in its common stockholders' ledger.

i. Special reserve

The Issuer shall maintain a certain percentage of special reserve as provision for future series B convertible preferred stock redemption. Cash, not less than the amount which shall be transferred to special reserve, has to be saved in the bank as time certificates of deposit with restriction of not allowing for withdrawal. The restriction is lifted when the Issuer has reserved enough amount of special reserve required.

In accordance with SFAS No. 36, "Financial Instruments: Disclosure and Presentation," the Company divided preferred stocks into conversion option and put option, which are recognized as equity and liability, respectively. Equity component of preferred stocks which is recorded under minority interest amounted to $25,690 thousand. Liability component of preferred stocks is charged to embedded derivatives and liabilities. As of December 31, 2009, embedded derivatives which are measured at fair value amounted to $11,130 thousand; liabilities which do not belong to derivatives financial instruments amounted to $318,631 thousand. As of the balance sheet date, none of the preferred stockholders requested to convert their preferred stocks into common stocks.

24. RETIREMENT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Test-Rite, B&S Link, Chung Cin Enterprise, Test-Rite Retail (including Hola, Homy and Freer), Tong Lung, Tony Construction, Test Cin M&E and Chung Cin Interior Design have a defined benefit pension plan under the LSL covering all employees. The pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. Except for Test-Rite Retail, which contributes amounts equal to 2% of total monthly salaries and wages, and Tong Lung, which contributes amounts equal to 7% of total monthly salaries and wages, other companies contribute amounts equal to 4% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name.

	2009	2008
Service cost	$ 15,821	$ 18,819
Interest cost	15,921	19,010
Actual return on plan assets	(3,415)	(3,681)
Expected return on plan assets	(5,773)	(8,963)
Amortization of net transitional obligation	10,765	8,591
Vested past service cost	-	(326)
Amortization of pension loss	1,540	3,589
Additional personnel cost	3,173	-
	$ 38,032	$ 37,039

The following table sets forth the actuarial assumptions and plan's status as of December 31, 2009 and 2008:

	2009	2008
Weighted-average discount rate	2.00%-3.00%	2.50%-3.00%
Expected rate of return on plan assets	2.00%-3.00%	2.50%-3.00%
Assumed rate of increase in salary	1.00%-3.00%	1.00%-4.00%

	2009	2008
Actuarial present value of benefit obligation		
Vested benefits	$ (203,549)	$ (161,967)
Nonvested benefits	(340,012)	(368,973)
Accumulated benefit obligation	(543,561)	(530,940)
Additional benefits at future salaries	(127,765)	(136,186)
Projected benefit obligation	(671,326)	(667,126)
Plan assets at fair value	392,448	398,893
Projected benefit obligation in excess of plan assets	(278,878)	(268,233)
Net transition asset not yet recognized	(5,141)	(3,174)
Net pension loss not yet recognized	156,611	148,568
Additional pension liability	15,789	16,618
Accrued pension cost	(82,965)	(66,190)
	(194,584)	(172,411)
Prepaid pension cost assets (included in prepayments)	(24,621)	(14,289)
Deferred pension cost	(33,369)	(38,862)
Accrued pension liability (included in other liabilities)	$ (252,574)	$ (225,562)

25. CAPITAL STOCK

Test-Rite's capital stock as of December 31, 2009 and 2008 consists of the following:

	2009	2008
Registered capital		
Share (thousand shares)	660,000	660,000
Par value (in dollars)	$ 10	$ 10
Capital	$ 6,600,000	$ 6,600,000
Issued capital		
Share (thousand shares)	531,223	473,666
Par value (in dollars)	$ 10	$ 10
Capital	$ 5,312,228	$ 4,736,660

Test-Rite's outstanding capital stock as of January 1, 2009, amounted to $4,736,660 thousand. Transferred from the 2009 retained earnings to capital stock were bonuses to employees of $11,610 thousand, and stock dividends of $63,958 thousand, or total of $75,568 thousand. On July 24, 2009, the Board of Directors decided to increase the Company's capital by 50,000,000 shares for cash. The stock was issued above par at $13.70 per share. Consequently, as of December 31, 2009, Test-Rite's capital stock was increased to $5,312,228 thousand consisting of 531,222,872 outstanding common shares having a par value of $10 dollars each.

Test-Rite's planned issuance of common stocks for cash was in accordance with Article 267 of the Company Law, which requires the Company to reserve 15% of shares issued, or 7,500,000 shares, for employee stock option plan. Under Article 28-1 of the Securities and Exchange Act, the Company also allocated 42,500,000 shares to issue stocks through Book Building process. The subscription price per share was $13.70 and the price per share on the grant date was $15.15. The fair value of each share was $1.4502, which was measured by the option pricing model required by the ARDF issued Interpretation 2007-267. Because of the cash-settled share-based payment transactions in 2009, the Company recognized salary expenses and capital surplus - employee stock options of $10,877 thousand. After issuing stocks for employee stock options, the Company had reclassified $10,877 to capital surplus - additional paid-in capital.

Test-Rite's outstanding capital stock as of January 1, 2008, amounted to $4,652,434 thousand. Transferred from the 2007 retained earnings to capital stock were bonuses to employees of $41,530 thousand, and stock dividends of $42,696 thousand, or total of $84,226 thousand. Consequently, as of December 31, 2008, Test-Rite's capital stock was increased to $4,736,660 thousand consisting of 473,666,067 outstanding common shares having a par value of $10 dollars each.

As of December 31, 2009, information regarding Test-Rite's share-based payment is summarized below:

a. As of December 31, 2009, Test-Rite's share-based payment is as follows:

Type of Arrangement	Grant Date	Number of Options Granted	Contract Period	Grant Condition	Turnover Rates for This Year	Estimated Turnover Rate
Issuance of common stock for cash reserved for employee stock options	September 21, 2009	7,500,000 shares	-	Immediate	-	-

b. Detail information about employee stock options described above is as follows:

	Year Ended December 31, 2009	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance, beginning of year	-	$ -
Options granted	7,500	13.70
Additional options granted from stock dividends or adjustment for options granted	-	-
Options forfeited	-	-
Options exercised	(4,483)	13.70
Expired options invalidated	(3,017)	-
Balance, end of year	-	

c. Options granted after January 1, 2008 were priced at estimated fair market value using Black-Scholes pricing model and the inputs to the model were as follows:

Type of Arrangement	Grant Date	Grant-date Share Price (NT$)	Exercise Price (NT$)	Expected Volatility	Option Life (Years)	Expected Dividend Yield	Risk-free Interest Rate	Fair Value Per Unit (NT$)
Issuance of common stock for cash reserved for employee stock options	September 21, 2009	$15.15	$13.70	15.20%	-	-	0.445%	$1.4502

In the stockholders' meetings on June 16, 2009 and June 13, 2008, the stockholders decided to distribute retained earnings for 2008 and 2007 as follows:

	2008	
	Distributions of Earnings	Dividends Per Share (In Dollars)
Legal reserve	$ 23,382	$ -
Cash dividends	149,235	0.35
Stock dividends	63,958	0.15

	2007	
	Distributions of Earnings	Dividends Per Share (In Dollars)
Legal reserve	$ 57,685	$ -
Cash dividends	426,963	1.00
Stock dividends	42,696	0.10
Bonuses to employees - cash	3	-
Bonuses to employees - stock	41,530	-
Bonuses to director and supervisors - cash	10,383	-

The bonus to employees of $17,334 thousand and the bonus to directors and supervisors of $4,209 thousand directly charged to expense for 2008 were approved in the stockholders' meeting on June 16, 2009. Bonus to employees was all distributed through 1,161,014 shares of common stock of Test-Rite. The number of shares of 1,161,014 thousand was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting. The shares have face value of $10 each. Therefore, $11,610 thousand was recorded under paid-in capital and $5,724 thousand was transferred to additional paid-in capital under capital surplus as the capital registration process was completed. The approved amounts of the bonus to employees and the bonus to directors and supervisors were different from the accrual amounts of $19,000 thousand and $4,800 thousand, respectively. The differences were $1,666 thousand and $591 thousand, respectively. The differences were not material and had been adjusted in profit and loss for the year ended December 31, 2009.

For the years ended December 31, 2009 and 2008, the earnings per share was calculated as follows:

	2009						
	Amounts (Numerator)				EPS (NT$)		
	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 to stockholders of common stock	$ 387,098	$ 233,403	$ 136,771	447,230,543	$ 0.87	$ 0.52	$ 0.31
The effects of dilutive potential ordinary shares							
Bonus to employees	-	-	-	519,553	(0.01)	-	-
Diluted earnings per share							
Net income to stockholders of common stock and the effects of potential ordinary shares	$ 387,098	$ 233,403	$ 136,771	447,750,096	$ 0.86	$ 0.52	$ 0.31

	2008						
	Amounts (Numerator)				EPS (NT$)		
	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 to stockholders of common stock	$ 256,004	$ 179,905	$ 285,113	444,162,858	$ 0.58	$ 0.41	$ 0.64
The effects of dilutive potential ordinary shares							
Bonus to employees	-	-	-	1,258,278	(0.01)	(0.01)	-
Diluted earnings per share							
Net income to stockholders of common stock and the effects of potential ordinary shares	$ 256,004	$ 179,905	$ 285,113	445,421,136	$ 0.57	$ 0.40	$ 0.64

The Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

Bonuses to employees shall be recognized as expense after the adoption of Interpretation 96-052. Therefore, the weighted-average number of common shares outstanding in the calculation of basic and diluted EPS shall not be adjusted retroactively for the increase in common shares outstanding from stock issuance for employee’s bonuses.

Earnings per share for the year ended December 31, 2008 was based upon the weighted average number of common shares outstanding during the year after giving retroactive effects to the stock dividends declared in 2009.

As of December 31, 2009, the 2009 retained earnings proposition has not yet been approved by the stockholders’ meeting. Regarding previous 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.

Regarding the 2008 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.

For the year ended December 31, 2009 and 2008, the bonus to employees was $9,300 thousand and $19,000 thousand, respectively, and the bonuses to directors and supervisors were $1,900 thousand and $4,800 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represented 8% and 2%, respectively, of net income (net of the bonus and remuneration). Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders’ resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders’ meeting.

26. 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. Bonus to directors and supervisors - 2%, and

b. Bonus to employees - at least 2% or more,

c. The remainder shall then be allocated in accordance with the resolution of the stockholders in their annual meeting.

The dividend policy is designed for the Company to achieve its business plan and at the same time, maintain stockholders' benefits. Distribution is made through stock dividends, common stocks from capital surplus and cash dividends. Cash dividends shall not be less than 10% of total distribution. However, if cash dividends per share are less than NT$0.1, stock dividends could be distributed instead of cash dividends.

27. TREASURY STOCK

The changes of treasury stock for the years ended December 31, 2009 and 2008 are summarized as follows (in shares):

Reason	2009.1.1	Increase	Decrease	2009.12.31
Buy the stock back to transfer to employees	47,280,000	-	-	47,280,000
Reason	**2008.1.1**	**Increase**	**Decrease**	**2008.12.31**
Buy the stock back to transfer to employees	17,185,000	30,095,000	-	47,280,000

As of December 31, 2009 and 2008, the treasury stock of Test-Rite was both $897,297 thousand, which was purchased back by Test-Rite.

The Company should transfer all shares purchased back in lump sum or from time to time to employees, including those of subsidiaries in which the Company holds more than one half of the total number of voting shares, directly or indirectly within three years from the buyback date.

According to the Stock Exchange Law of the 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 Test-Rite held as of December 31, 2009 and 2008 was both 47,280,000 shares and the total amount was both $897,297 thousand pursuant to the law.

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

28. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2009 and 2008 are summarized as follows:

Function / Expense Item	2009			2008		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel expenses						
Salaries	$ 300,591	$ 2,852,709	$ 3,153,300	$ 333,756	$ 2,709,352	$ 3,043,108
Labor insurance and health insurance	23,388	170,986	194,374	20,184	181,948	202,132
Pension cost	22,821	109,822	132,643	23,164	129,819	152,983
Others	26,566	285,946	312,512	30,433	351,002	381,435
Depreciation expenses	96,041	666,506	762,547	102,519	628,620	731,139
Amortization expenses	7,723	86,074	93,797	12,221	48,650	60,871

29. INCOME TAX

The components of income tax expense for the year ended December 31, 2009 are as follows:

Tax expenses from entities generating net income	$ 168,133
Tax credits from entities generating net loss	(122,520)
Additional income tax under tax Alternative Minimum Tax Act	11,200
Estimated 10% income tax on 2008 undistributed earnings	400
Effect of tax law changes on deferred income tax	166,623
Deferred tax asset adjustment and change in adjustment of valuation allowance	(64,909)
Adjustment of prior years' tax expenses	(5,232)
Income tax expense	$ 153,695

The tax effects of deductible temporary differences that gave rise to deferred tax assets as of December 31, 2009 are as follows:

Losses carryforward	$ 39,400
Investment tax credits	13,000
Investment loss recognized under equity method	569,300
Others	354,304
	976,004
Less valuation allowance	(6,700)
Net deferred tax assets	969,304
Less deferred tax assets, noncurrent (included in other assets)	(915,330)
Deferred tax assets, current (included in other current assets)	$ 53,974

Current income tax for the year ended December 31, 2009 and income tax payable as of December 31, 2009 are generated as follows:

Income tax expense at statutory rate	$ 170,586
Decrease in tax resulting from others	(2,453)
Current tax expense	168,133
Provision for deferred income tax assets	
Others	52,378
Income tax payable	220,511
Add estimated 10% income tax on 2008 undistributed earnings	400
Less prepayments and withholdings in 2009	(65,391)
Add income tax payable for the prior years	12,805
Income tax payable as of December 31, 2009	$ 168,325

The reported prepaid income tax and withholdings of $70,943 thousand as of December 31, 2009 were income tax prepayments in 2009 and prior years.

Losses carryforward as of December 31, 2009 for income tax purposes are as follows:

Year Expired	Amount
2013	$ 2,500
2018	19,660
2019	17,240
	$ 39,400

Investment and research and development tax credits as of December 31, 2009 are as follows:

Year Expired	Investment Tax Credits	Human Resources Development Tax Credits	Research and Development Tax Credits	Total
2012	$ 600	$ 200	$ 3,900	$ 4,700
2013	-	-	8,300	8,300
	$ 600	$ 200	$ 12,200	$ 13,000

The information of Test-Rite about Imputation Credit ("IC") on the undistributed earnings as of December 31, 2009 was summarized as follows:

IC on undistributed earnings as of December 31, 2009	$ 299,265
Undistributed earnings in years from 1998 and after	$ 140,945
Expected IC ratio on distributed earnings in 2010	33.77%
Actual IC ratio on distributed earnings in 2009	33.33%

The income tax returns of Test-Rite for years through 2007 have been examined and approved by the tax authority. The tax authority assessed an additional income tax payable of $75,769 thousand and $108,117 thousand, respectively, because Test-Rite did not obtain legal evidence for commission expenses which the Company reported on its 2007 and 2006 income tax returns. Test-Rite did not agree with the decision so it filed an appeal to the tax authority. Test-Rite does not expect the result of the appeal will generate any significant loss to the Company based on its previous experience. Therefore, the Company decided not to record the disputed tax payable on its book.

30. 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
Tony Ho	Related party in substance and chairman of Test-Rite before March 2009
Judy Lee	Managing director of Test-Rite before March 2009 and chairman of Test-Rite after March 2009
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
Quality Master Investment Co., Ltd. ("Quality Master")	Related party in substance

Rental Income

Rental income from related parties for the years ended December 31, 2009 and 2008 is summarized below:

	2009		2008	
	Amount	%	Amount	%
Others	$ 201	-	$ 201	-

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, 2009 and 2008 is summarized below:

	2009		2008	
	Amount	%	Amount	%
Others	$ 960	5	$ 914	5

Selling, General and Administrative Expenses - Commission Expenses

Commission expenses to related parties for the years ended December 31, 2009 and 2008 are summarized below:

	2009		2008	
	Amount	%	Amount	%
TR-Mexico	$ 15,926	6	$ 28,950	10

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, 2009 and 2008 is summarized below:

	2009		2008	
	Amount	%	Amount	%
Advances for related parties				
TR Mexico	$ 5,683	100	$ 5,096	100

Due to Related Parties

Due to related parties as of December 31, 2009 and 2008 is summarized below:

	2009		2008	
	Amount	%	Amount	%
Accrued commission expenses				
TR Mexico	$ 1,296	3	$ 1,261	3

Payment of Credit Guarantees

Endorsements or guarantees that Test-Rite provided to Test-Rite's business related legal entities and subsidiaries are summarized in Note 32.

As of December 31, 2009, short-term bank borrowings of $258,162 thousand were guaranteed by Tony Ho and Judy Lee. Short-term bank borrowings of $70,000 thousand were guaranteed by Tony Ho and $128,120 thousand were guaranteed by Judy Lee.

As of December 31, 2008, short-term bank borrowings of $747,276 thousand were guaranteed by Tony Ho and Judy Lee.

As of December 31, 2009, long-term debt of $1,300,000 thousand was guaranteed by Tony Ho and Judy Lee. Long-term debt of $2,500,000 thousand was guaranteed by Tony Ho and $700,000 thousand was guaranteed by Judy Lee.

As of December 31, 2008, long-term debt of $1,000,000 thousand was guaranteed by Tony Ho and Judy Lee. Long-term debt of $3,833,333 thousand was guaranteed by Tony Ho.

Compensation of Directors, Supervisors and Management Personnel

	Years Ended December 31	
	2009	2008
Salaries	$ 136,991	$ 94,431
Incentives	15,763	9,746
Bonuses	-	18,211
	$ 152,754	$ 122,388

Compensation of directors, supervisors and management personnel for 2009 was estimated according to the order of making appropriations from net income regulated by the Company's Articles of Incorporation. The appropriations of earnings for 2009 have not been approved in the shareholders' meeting. The information about the compensation of directors and management personnel is available in the annual report for stockholders' meeting.

The compensation of directors, supervisors and management personnel for the year ended December 31, 2008 included the bonuses appropriated from earnings for 2008 which had been approved by the stockholders in their meeting held in 2009. Please refer to annual report for stockholders' meeting for more details.

31. PLEDGED ASSETS

Assets pledged for various purposes as of December 31, 2009 and 2008 are summarized as follows:

	2009	2008
Accounts receivable (see Note 7)	$ 65,387	$ 78,382
Time deposits	138,316	181,318
Long-term equity investments at equity method	4,247,779	4,014,494
Land (see Note 16)	208,875	208,875
Buildings and improvements (see Note 16)	323,685	168,700
Restricted assets (see Note 4)	35,380	-
	$ 5,019,422	$ 4,651,769

As of December 31, 2009 and 2008, Test-Rite Retail had 75,000,000 and 65,000,000 of its shares, respectively, pledged as collateral for Lih Chiou to raise a loan at Yuanta Bank. The face value of these shares was $4,247,779 thousand and $4,014,494 thousand, respectively (See Note 22).

32. COMMITMENTS AND CONTINGENCIES

Letter of Credit

Test-Rite's outstanding letters of credit not reflected on the accompanying financial statements as of December 31, 2009 is US$5,760 thousand and EUR25 thousand.

Test-Rite's outstanding letters of credit not reflected on the accompanying financial statements as of December 31, 2008 is US$3,654 thousand.

Endorsements/guarantees provided: As of December 31, 2009 and 2008, endorsements or guarantees that the Company provided to its business related legal entities and subsidiaries are summarized as follows:

	2009	2008
Standby letters of credit		
TR Products	US$ 2,750	US$ 2,750
Endorsements		
Hola Shanghai Retail & Trading Ltd.	US$ 23,261	US$ 26,661
TR Products	US$ 22,430	US$ 15,310
Test-Rite Business Development	US$ 8,700	US$ 5,000
TR Trading & TR Retailing	US$ 6,500	US$ 12,750
Jiashan Te-Cheng Wood Industrial	US$ 4,050	US$ 4,050
TR Development	US$ 4,000	US$ 4,000
TR Trading	US$ 3,600	US$ -
B&S Link Co., Ltd.	US$ 300	US$ -
TR Pte Ltd.	US$ -	US$ 1,000

Tong Lung's outstanding funding letters of credit for purchases of raw material and equipment amounted to approximately $44,601 thousand on December 31, 2009.

Tong Lung has materials ordered but not yet received of approximately $69,202 thousand on December 31, 2009.

In December 2004, Tong Lung committed to proceed with the division and transfer of building No. 59 to a hospital. The hospital has the first priority right to purchase the remaining portion of the land situated in May-Lin factory if Tong Lung decides to sell it within 10 years.

As of December 31, 2009, Tong Lung has refundable deposits paid in banks of $64,692 thousand in order to purchase raw material.

Tong Lung signed a land lease contract with Subic Bay Freeport Zone in 2006 to rent a piece of land, which is currently used by Tong Lung Metal (Philippines). The lease term is 40 years and the rent is required to be paid annually for 5 years. In April 2008, Tong Lung signed another contract, effective July 1, 2008, transferring the land lease contract to Tong Lung Metal (Philippines). According to the contact, the remaining rent was paid by Tong Lung Metal (Philippines) instead.

As of December 31, 2009, Test-Rite Retail's outstanding letters of credit for purchase of inventory amounted to approximately US$217,222.

As of December 31, 2009, Test-Rite Retail has import duty relief on temporary admission, coupon execution guarantee and CPC Corporation guarantee rendered by banks for approximately $54,580 thousand.

Litigation

As of December 31, 2009, Tong Lung has a significant in-process litigation named Chen Shu Yuan Stockholder Case. Chen Shu Yuan and the rest of 3800 stockholders brought a lawsuit against Tong Lung due to their investment loss suffered from subscription to Tong Lung's capital increase in cash in 1997. These stockholders claimed for indemnity of NT$1.1 billion but was suspended immediately when Tong Lung was approved for reorganization. As soon as Tong Lung completed the reorganization, Taiwan High Court adjudicated and rejected the claim. The stockholders further appealed to the Supreme Court but according to the lawyer who stands for Tong Lung, the right to appeal is beyond the determined period in law. Tong Lung therefore did not record any of such contingent payable.

33. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Nominal Amount and Credit Risk

The forward exchange contract as of December 31, 2009 and 2008 is summarized below:

		2009		2008	
Financial Instruments	**Type**	**Nominal Amount**	**Credit Risk**	**Nominal Amount**	**Credit Risk**
Non-trading purpose					
Forward exchange	Sale	US$ 220,000	$ -	US$ 290,550	$ -
	Sale	EUR 2,853	-	EUR 4,000	-
	Buy	US$ 147,119	-	US$ 194,040	-
	Buy	EUR -	-	EUR 2,863	-

The Company had option trading at banks with a high rating. Therefore, the credit risk is low.

The exchange gains on the sale or purchase of derivative financial instruments of $163,622 thousand and $86,319 thousand for the years ended of 2009 and 2008, respectively, are recorded under nonoperating income - exchange gain.

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

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

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments as of December 31, 2009 and 2008 is summarized as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$ 1,320,281	$ 1,320,281	$ 1,263,656	$ 1,263,656
Financial assets at fair value through profit or loss, current	728,866	728,866	327,827	327,827
Available-for-sale financial assets, current	11,150	11,150	6,017	6,017
Notes receivable	68,846	68,846	41,758	41,758
Accounts receivable	1,552,457	1,552,457	2,519,052	2,519,052
Other receivables	306,480	306,480	1,113,447	1,113,447
Other financial assets, current	6,077	6,077	101,422	101,422
Long-term equity investments at equity method	147	147	1	1
Available-for-sale financial assets, noncurrent	24,540	24,540	33,926	33,926
Held-to-maturity financial assets, noncurrent	-	-	7,397	7,397
Financial assets carried at cost, noncurrent	131,624	131,624	133,751	133,751
Refundable deposits paid	783,089	783,089	835,111	835,111
Liabilities				
Short-term bank borrowings	3,004,346	3,004,346	4,551,213	4,551,213
Short-term bills payable	80,000	80,000	95,000	95,000
Financial liabilities at fair value through profit or loss, current	2,652	2,652	22,544	22,544
Notes payable	8,364	8,364	74,453	74,453
Accounts payable	2,878,529	2,878,529	2,578,341	2,578,341
Other payables	1,283,446	1,283,446	1,334,544	1,334,544
Current portion of long-term liabilities	346,983	346,983	542,070	542,070
Other financial liabilities, current	24,697	24,697	15,675	15,675
Long-term debt	5,019,035	5,019,035	4,946,872	4,946,872
Other financial liabilities, noncurrent	2,125	2,125	28,828	28,828

The fair value of derivative financial instruments as of December 31, 2009 and 2008 is summarized as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities at fair value through profit or loss, current	$ 18,919	$ 18,919	$ 57,972	$ 57,972
Put option on convertible preferred stock	(11,130)	(11,130)	(18,445)	(18,445)

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 will mature within a short period of time. Therefore, they should be recognized at fair value. Fair value recognition can be applied to financial instruments including cash and cash equivalents, notes receivable, accounts receivable, short-term bank borrowings, short-term bills payable, notes payable, accounts payable, and other financial instruments, etc.

b. If the price of marketable securities is obtainable, they should be measured at fair value. Otherwise, other information can be used to estimate these financial securities' fair value.

c. Fair value of long-term debts is estimated using the present value of future cash flows discounted by the interest rates the company may obtain for similar loans.

d. The fair value of derivative financial instruments is the amount 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.

Fair Value Measurement on Financial Assets and Liabilities

	Market Value	Other Estimation Method	Total
Assets			
Financial assets at fair value through profit or loss, current	$ 728,866	$ 107	$ 728,973
Available-for-sale financial assets, current	11,150	-	11,150
Liabilities			
Financial liabilities at fair value through profit or loss, current	2,652	19,026	21,678
Financial liabilities at fair value through profit or loss, noncurrent	-	11,130	11,130

34. OPERATING LEASE

The lease agreement of the land, buildings and improvements which Test-Rite entered into with non-related parties is summarized as follows:

A list of rent expense in the future 5 years and the present value of rentals from 2015 to 2017 as of December 31, 2009:

Period	Amount
2010	$ 265,225
2011	273,182
2012	281,377
2013	289,818
2014	298,513
2015-2018 (present value $399,888 thousand)	950,354
	$ 2,358,469

The lease agreement which Test-Rite entered into with related parties is summarized as follows:

A list of rent revenue in the future 5 years and the present value of rentals from 2015 to 2019 as of December 31, 2009:

Period	Amount
2010	$ 276,164
2011	274,442
2012	282,157
2013	282,360
2014	284,930
2015-2019 (present value $721,647 thousand)	910,848
	$ 2,310,901

The lease agreement which Test-Rite entered into with non-related parties is summarized as follows:

A list of rent revenue in the future 5 years and the present value of rentals of 2015 as of December 31, 2009:

Period	Amount
2010	$ 340
2011	247
2012	255
2013	262
2014	270
2015 (present value $57 thousand)	68
	$ 1,442

The lease agreement which Chung Cin Enterprise entered into with non-related parties is summarized as follows:

A list of rent revenue in the future 5 years and the present value of rentals from 2015 to 2026 as of December 31, 2009:

Period	Amount
2010	$ 45,226
2011	26,363
2012	11,642
2013	10,078
2014	10,328
2015-2019 (present value $20,327 thousand)	24,790
2020-2024 (present value $11,241 thousand)	16,403
2025-2026 (present value $526 thousand)	844
	$ 145,674

The lease agreement which Chung Cin Enterprise entered into with non-related parties is summarized as follows:

A list of rent expense in the future 5 years and the present value of rentals from 2015 to 2025 as of December 31, 2009:

Period	Amount
2010	$ 28,795
2011	29,940
2012	29,940
2013	30,864
2014	32,085
2015-2019 (present value $155,497 thousand)	170,518
2020-2024 (present value $164,412 thousand)	192,289
2025 (present value $22,575 thousand)	27,437
	$ 541,868

The sale-leaseback agreement of equipment, warehouse, and showroom facilities which TR U.S. entered into with non-related parties is summarized as follows:

A list of rent expense in the future 5 years as of December 31, 2009:

Period	Amount
2010	$ 66,369
2011	49,777
2012	50,239
2013	51,165
2014	54,074
2015	173,822
	$ 445,446

The patent license agreement which TR U.S. entered into with non-related parties is summarized as follows:

A list of royalty expense in the future 3 years as of December 31, 2009:

Period	**Amount**
2010	$ 3,305
2011	6,610
2012	6,610
	$ 16,525

The lease agreement for office premises which TR Retailing entered into with non-related parties is summarized as follows:

A list of rent expense in the future 5 years and the present value of rentals from 2015 to 2028 as of December 31, 2009:

Period	**Amount**
2010	$ 473,246
2011	494,636
2012	506,088
2013	516,774
2014	524,012
2015-2019 (present value $1,875,702 thousand)	2,181,056
2020-2024 (present value $467,642 thousand)	602,700
2025-2028 (present value $153,471 thousand)	220,187
	$ 5,518,699

The lease agreement for office premises which Test-Rite Retail entered into with non-related parties is summarized as follows:

A list of rent expense in the future 5 years and the present value from 2015 to 2024 as of December 31, 2009:

Period	**Amount**
2010	$ 832,384
2011	852,584
2012	874,265
2013	807,904
2014	748,935
2015-2019 (present value $2,380,862 thousand)	2,622,613
2020-2024 (present value $1,057,451 thousand)	1,189,343
	$ 7,928,028