# Test-Rite International Co., Ltd. and Subsidiaries

## Consolidated Financial Statements for the Years Ended December 31, 2010 and 2009 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, 2010 and 2009, 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, 2010 and 2009, 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.

April 12, 2011

Notice to Readers

*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, 2010 AND 2009**
**(In Thousands of New Taiwan Dollars)**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | $ 1,111,270 | 5 | $ 1,320,281 | 6 |
| Financial assets at fair value through profit or loss, current (Notes 2 and 5) | 599,365 | 3 | 728,973 | 3 |
| Available-for-sale financial assets, current (Notes 2 and 6) | 2,301 | - | 11,150 | - |
| Notes receivable (Notes 2 and 7) | 63,970 | - | 68,846 | - |
| Accounts receivable (Notes 2 and 7) | 2,122,455 | 9 | 1,552,457 | 7 |
| Other receivables (Note 8) | 278,056 | 1 | 306,480 | 1 |
| Other financial assets, current | 169 | - | 6,077 | - |
| Inventories (Notes 2 and 9) | 4,735,730 | 20 | 4,085,163 | 19 |
| Prepayments | 761,037 | 3 | 669,292 | 3 |
| Other current assets | 202,995 | 1 | 219,275 | 1 |
| Total current assets | 9,877,348 | 42 | 8,967,994 | 40 |
| LONG-TERM INVESTMENTS | | | | |
| Long-term equity investments at equity method (Note 10) | 983 | - | 147 | - |
| Investments in real estate (Note 11) | 14,277 | - | 14,378 | - |
| Available-for-sale financial assets, noncurrent (Note 12) | 29,209 | - | 24,540 | - |
| Financial assets carried at cost, noncurrent (Note 13) | 115,196 | 1 | 131,624 | 1 |
| Bond investments with no active market, noncurrent (Note 14) | 50,000 | - | 50,000 | - |
| Total long-term investments | 209,665 | 1 | 220,689 | 1 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 15) | | | | |
| Cost | | | | |
| Land | 654,435 | 3 | 654,435 | 3 |
| Buildings and improvements | 1,515,629 | 7 | 1,400,831 | 6 |
| Machinery and equipment | 940,148 | 4 | 1,193,106 | 5 |
| Transportation equipment | 106,782 | - | 104,899 | 1 |
| Other equipment | 8,263,554 | 36 | 7,584,127 | 34 |
| Total cost | 11,480,548 | 50 | 10,937,398 | 49 |
| Revaluation increments | 104,515 | - | 104,515 | - |
| Less accumulated depreciation | (5,609,176) | (24) | (5,215,474) | (23) |
| Construction in progress and prepayments for property, plant and equipment | 431,814 | 2 | 378,258 | 2 |
| Property, plant and equipment, net | 6,407,701 | 28 | 6,204,697 | 28 |
| INTANGIBLE ASSETS (Note 2) | | | | |
| Patent | 34 | - | 17 | - |
| Computer software cost | 85,943 | - | 29,523 | - |
| Goodwill | 3,636,378 | 16 | 3,645,499 | 17 |
| Deferred pension cost (Notes 2 and 23) | 26,458 | - | 33,369 | - |
| Total intangible assets | 3,748,813 | 16 | 3,708,408 | 17 |
| OTHER ASSETS (Notes 2 and 16) | | | | |
| Refundable deposits paid | 844,777 | 4 | 783,089 | 4 |
| Deferred income tax assets, noncurrent (Note 28) | 892,180 | 4 | 915,330 | 4 |
| Restricted assets, noncurrent (Note 4) | - | - | 35,380 | - |
| Other assets - others | 1,190,866 | 5 | 1,386,477 | 6 |
| Total other assets | 2,927,823 | 13 | 3,120,276 | 14 |
| TOTAL | $ 23,171,350 | 100 | $ 22,222,064 | 100 |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | **Amount** | **%** | **Amount** | **%** |
| CURRENT LIABILITIES | | | | |
| Short-term bank borrowings (Note 17) | $ 2,868,418 | 12 | $ 3,004,346 | 13 |
| Short-term bills payable (Note 18) | 41,000 | - | 80,000 | - |
| Financial liabilities at fair value through profit or loss, current (Notes 2 and 5) | 15,234 | - | 21,678 | - |
| Notes payable | 16,270 | - | 8,364 | - |
| Accounts payable | 3,196,463 | 14 | 2,878,529 | 13 |
| Income tax payable (Notes 2 and 28) | 150,784 | 1 | 168,325 | 1 |
| Other payables (Note 19) | 1,785,795 | 8 | 1,283,446 | 6 |
| Advance receipt | 84,844 | - | 267,698 | 1 |
| Current portion of long-term debt (Note 21) | 12,188 | - | 346,983 | 2 |
| Other current liabilities (Note 20) | 409,036 | 2 | 404,442 | 2 |
| Total current liabilities | 8,580,032 | 37 | 8,463,811 | 38 |
| LONG-TERM LIABILITIES | | | | |
| Financial liabilities at fair value through profit or loss, noncurrent (Note 5) | - | - | 11,130 | - |
| Long-term debt (Note 21) | 5,660,510 | 25 | 5,019,035 | 23 |
| Liability component of preferred stocks, noncurrent (Note 22) | 326,996 | 1 | 318,631 | 1 |
| Total long-term liabilities | 5,987,506 | 26 | 5,348,796 | 24 |
| ESTIMATED ACCRUED LAND VALUE INCREMENT TAX PAYABLE | 36,740 | - | 36,740 | - |
| OTHER LIABILITIES | | | | |
| Accrued pension cost (Notes 2 and 23) | 274,690 | 1 | 252,574 | 1 |
| Refundable deposits received | 103,846 | 1 | 2,125 | - |
| Deferred credit (Note 15) | 1,408,731 | 6 | 1,643,519 | 8 |
| Other liabilities - others | 46,292 | - | 27,571 | - |
| Total other liabilities | 1,833,559 | 8 | 1,925,789 | 9 |
| Total liabilities | 16,437,837 | 71 | 15,775,136 | 71 |
| EQUITY ATTRIBUTED TO STOCKHOLDERS OF THE PARENT | | | | |
| Capital stock (Note 24) | | | | |
| Common stock | 5,164,228 | 22 | 5,312,228 | 24 |
| Capital surplus | | | | |
| Additional paid-in capital | 701,623 | 3 | 721,731 | 3 |
| Retained earnings (Note 25) | | | | |
| Legal reserve | 706,610 | 3 | 692,933 | 3 |
| Unappropriated earnings | 375,489 | 2 | 140,945 | 1 |
| Other adjustments of stockholders' equity | | | | |
| Cumulative translation adjustments | 84,896 | - | 120,332 | - |
| Net loss not recognized as pension costs | (72,380) | - | (55,422) | - |
| Unrealized holding loss on available-for-sale financial asset | (4,134) | - | (267) | - |
| Treasury stock (Notes 2 and 26) | (616,417) | (3) | (897,297) | (4) |
| | 6,339,915 | 27 | 6,035,183 | 27 |
| MINORITY INTEREST | 393,598 | 2 | 411,745 | 2 |
| Total stockholders' equity | 6,733,513 | 29 | 6,446,928 | 29 |
| TOTAL | $ 23,171,350 | 100 | $ 22,222,064 | 100 |

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

# TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**
**YEARS ENDED DECEMBER 31, 2010 AND 2009**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUES (Note 2) | $ 32,608,038 | 100 | $ 29,047,650 | 100 |
| OPERATING COST | 22,923,460 | 70 | 20,707,371 | 71 |
| GROSS PROFIT | 9,684,578 | 30 | 8,340,279 | 29 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 8,813,516 | 27 | 7,934,431 | 28 |
| INCOME FROM OPERATIONS | 871,062 | 3 | 405,848 | 1 |
| NON-OPERATING INCOME | | | | |
| Interest income | 20,397 | - | 34,104 | - |
| Investment income recognized under equity method (Notes 2 and 10) | 301 | - | - | - |
| Gain on disposal of property, plant and equipment | 2,353 | - | 636 | - |
| Foreign exchange gain, net | 14,143 | - | 109,984 | 1 |
| Gain on valuation of financial assets | 152,252 | - | 23,114 | - |
| Gain on valuation of financial liabilities | - | - | 45,347 | - |
| Others | 252,190 | 1 | 238,652 | 1 |
| Total non-operating income | 441,636 | 1 | 451,837 | 2 |
| NON-OPERATING EXPENSES | | | | |
| Interest expenses | 183,066 | 1 | 222,847 | 1 |
| Investment loss recognized under equity method (Notes 2 and 10) | - | - | 3,077 | - |
| Loss on disposal of property, plant and equipment | 70,374 | - | 4,747 | - |
| Loss on disposal of investments, net | 4,052 | - | 11,463 | - |
| Amortization of liability component of preferred stocks, noncurrent | 8,365 | - | 10,456 | - |
| Dividends paid on liability component of preferred stocks, noncurrent | 14,000 | - | 14,000 | - |
| Impairment loss | 2,683 | - | 1,880 | - |
| Loss on valuation of financial liabilities | 14,836 | - | - | - |
| Others | 143,679 | - | 202,117 | 1 |
| Total non-operating expenses | 441,055 | 1 | 470,587 | 2 |
| INCOME BEFORE INCOME TAX | 871,643 | 3 | 387,098 | 1 |
| PROVISION FOR INCOME TAX (Notes 2 and 28) | (251,477) | (1) | (153,695) | - |
| TOTAL CONSOLIDATED NET INCOME | $ 620,166 | 2 | $ 233,403 | 1 |

(Continued)

## TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**
**YEARS ENDED DECEMBER 31, 2010 AND 2009**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| ATTRIBUTED TO | | | | |
| Parent company's stockholders | $ 486,818 | 2 | $ 136,771 | 1 |
| Minority interest | 133,348 | - | 96,632 | - |
| | $ 620,166 | 2 | $ 233,403 | 1 |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Before Income Tax** | **After Income Tax** | **Before Income Tax** | **After Income Tax** |
| BASIC EARNINGS PER SHARE (Notes 2 and 24) | | | | |
| Basic earnings per share including minority interest | $ 1.80 | $ 1.28 | $ 0.87 | $ 0.52 |
| Basic earnings per share attributed to parent company's stockholders | | $ 1.01 | | $ 0.31 |
| DILUTED EARNINGS PER SHARE (Notes 2 and 24) | | | | |
| Diluted earnings per share including minority interest | $ 1.80 | $ 1.27 | $ 0.86 | $ 0.52 |
| Diluted earnings per share attributed to parent company's stockholders | | $ 1.00 | | $ 0.31 |

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

## TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**YEARS ENDED DECEMBER 31, 2010 AND 2009**
**(In Thousands of New Taiwan Dollars)**

| | Capital Stock | Capital Surplus | Retained Earnings | | Other Adjustments of Stockholders' Equity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | 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, 2009 | $ 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 24) | | | | | | | | | | |
| 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 24) | 11,610 | 5,724 | - | - | - | - | - | - | - | 17,334 |
| Issuance of common stock for cash (Note 24) | 500,000 | 185,000 | - | - | - | - | - | - | - | 685,000 |
| Issuance of common stock reserved for stock option to employees (Note 24) | - | 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 |
| Appropriation and distribution of 2009 net income (Note 24) | | | | | | | | | | |
| Legal reserve | - | - | 13,677 | (13,677) | - | - | - | - | - | - |
| Cash dividends | - | - | - | (125,825) | - | - | - | - | - | (125,825) |
| Retirement of treasury stock (Note 24) | (148,000) | (20,108) | - | (112,772) | - | - | - | 280,880 | - | - |
| Cumulative translation adjustments on long-term equity investments | - | - | - | - | (35,436) | - | - | - | 32,828 | (2,608) |
| Net loss not recognized as pension cost | - | - | - | - | - | (16,958) | - | - | (5,697) | (22,655) |
| Unrealized valuation loss of available-for-sale financial assets | - | - | - | - | - | - | (3,867) | - | (1,982) | (5,849) |
| Minority interest | - | - | - | - | - | - | - | - | (176,644) | (176,644) |
| Total consolidated income for 2010 | - | - | - | 486,818 | - | - | - | - | 133,348 | 620,166 |
| BALANCE, DECEMBER 31, 2010 | $ 5,164,228 | $ 701,623 | $ 706,610 | $ 375,489 | $ 84,896 | $ (72,380) | $ (4,134) | $ (616,417) | $ 393,598 | $ 6,733,513 |

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

## TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2010 AND 2009**
**(In Thousands of New Taiwan Dollars)**

| | 2010 | 2009 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Total consolidated net income | $ 620,166 | $ 233,403 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Amortization for deferred charges on long-term debt | 300 | 450 |
| Depreciation and amortization | 891,238 | 856,344 |
| Amortization of liability component of preferred stocks, noncurrent | 8,365 | 10,456 |
| Gain on valuation of financial assets | (152,252) | (23,114) |
| Loss (gain) on valuation of financial liabilities | 14,836 | (45,347) |
| Investment (gain) loss recognized under equity method | (301) | 3,077 |
| Net (gain) loss on disposal of available-for-sale financial assets, noncurrent | (264) | 4,751 |
| Impairment loss | 2,683 | 1,880 |
| Net loss on disposal of property, plant and equipment | 5,127 | 4,111 |
| Loss on abandoned property, plant and equipment | 62,894 | 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 | 281,860 | (377,876) |
| Available-for-sale financial assets, current | 3,014 | - |
| Notes receivable | 4,876 | (27,088) |
| Accounts receivable | (569,998) | 966,595 |
| Other receivables | 28,424 | 805,398 |
| Other financial assets, current | 8,309 | 78,642 |
| Inventories | (650,567) | (195,966) |
| Prepayments | (91,745) | 2,845 |
| Deferred income tax assets, current | 17,032 | (713) |
| Other current assets | (752) | 42,468 |
| Deferred income tax assets, noncurrent | 23,150 | (51,176) |
| Other assets | 123,379 | 57,412 |
| Financial liabilities at fair value through profit or loss, current | (21,280) | (13,647) |
| Notes payable | 7,906 | (66,089) |
| Accounts payable | 317,934 | 300,904 |
| Income tax payable | (17,541) | (23,267) |
| Other payables | 371,881 | (62,498) |
| Advance receipt | (182,854) | 15,567 |
| Other current liabilities | 4,594 | (13,056) |
| Financial liabilities at fair value through profit or loss, noncurrent | (11,130) | (7,315) |
| Deferred income tax liabilities, noncurrent | 180 | - |
| Other liabilities | 47,568 | (23,108) |
| Net cash provided by operating activities | 912,244 | 2,230,143 |

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## TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2010 AND 2009**
**(In Thousands of New Taiwan Dollars)**

| | 2010 | 2009 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| (Increase) decrease in financing deposits | $ (2,401) | $ 17,983 |
| Increase in long-term equity investments at equity method | (637) | (1,615) |
| (Increase) decrease in available-for-sale financial assets, noncurrent | (3,523) | 10,360 |
| Decrease in held to maturity financial assets | - | 4,237 |
| Proceeds from decreased in capital stock of financial assets carried at cost, noncurrent | 3,216 | 2,041 |
| Decrease in financial assets carried at cost, noncurrent | 9,950 | 86 |
| Acquisition of bond investments without active market, noncurrent | - | (50,000) |
| Acquisition of property, plant and equipment | (966,377) | (1,262,689) |
| Proceeds from disposal of property, plant and equipment | 9,531 | 679,605 |
| Decrease (increase) in goodwill | 6,984 | (106,700) |
| (Increase) decrease in refundable deposits paid | (61,688) | 52,022 |
| Decrease (increase) in restricted assets | 35,380 | (35,380) |
| Increase in deferred charges | (82,009) | (72,327) |
| Net cash used in investing activities | (1,051,574) | (762,377) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in short-term bank borrowings | (135,928) | (1,546,867) |
| Decrease in short-term bills payable | (39,000) | (15,000) |
| Increase (decrease) in long-term debt | 306,680 | (105,590) |
| Increase (decrease) in refundable deposits received | 101,721 | (26,703) |
| Issuance of common stock for cash | - | 685,000 |
| Payment of cash dividends | (125,825) | (149,235) |
| Decrease in minority interest | (176,644) | (250,766) |
| Net cash used in financing activities | (68,996) | (1,409,161) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (685) | (1,980) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (209,011) | 56,625 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,320,281 | 1,263,656 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 1,111,270 | $ 1,320,281 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the year | | |
| Interest | $ 179,981 | $ 221,826 |
| Income tax | $ 280,166 | $ 251,738 |

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# TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2010 AND 2009**
**(In Thousands of New Taiwan Dollars)**

| | 2010 | 2009 |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Translation adjustments on long-term equity investments | $ (1,923) | $ 161 |
| Unrealized (loss) gain on available-for-sale financial assets | $ (5,849) | $ 10,858 |
| Net loss not recognized as pension costs | $ (22,655) | $ (20,212) |
| Transfer of long-term equity investments to deferred credits | $ - | $ (122) |
| Current portion of long-term debt | $ 12,188 | $ 346,983 |
| CASH PAID DURING THE YEAR FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT | | |
| Property, plant and equipment acquired | $ 1,096,845 | $ 1,273,373 |
| Add liabilities for acquisition of property, plant and equipment at the beginning of year | 76,581 | 65,897 |
| Deduct liabilities for acquisition of property, plant and equipment at the end of year | (207,049) | (76,581) |
| Cash paid during the year for acquisition of property, plant and equipment | $ 966,377 | $ 1,262,689 |
| CASH RECEIVED DURING THE YEAR FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT | | |
| Proceeds from disposal of property, plant and equipment | $ 9,531 | $ 3,280 |
| Add receivable from disposal of property, plant and equipment at the beginning of year | - | 676,325 |
| Deduct receivable from disposal of property, plant and equipment, current, at the end of year | - | - |
| Cash received during the year from disposal of property, plant and equipment | $ 9,531 | $ 679,605 |

The accompanying notes are an integral part of the consolidated financial statements. (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 (%) 2010.12.31 | Effective Holding (%) 2009.12.31 | Reasons for not Including in the Consolidated Financial Statement in 2010 and 2009 |
|---|---|---|---|---|---|
| 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 | 100.00 | |
| Test-Rite Canada Co., Ltd. | Directly held 100.00% | Importation and exportation | 100.00 | 100.00 | |
| Test-Rite (UK) Co., Ltd. | Directly held 100.00% | Importation and exportation | 100.00 | - | Established in July 2010 |
| Test-Rite Development Co., Ltd. | Directly held 100.00% | Investment holding company | 100.00 | 100.00 | |
| 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. | 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 2010 and 2009 |
|---|---|---|---|---|---|
| | | | 2010.12.31 | 2009.12.31 | |
| Tong Lung Metal Industry Co., Ltd. | Directly and indirectly held 66.03% | The manufacture and sale of (1) various advanced lock, building metals parts and processed plastic goods (2) molding and tool machines and (3) kitchen and bathroom equipment (4) import and export business related to the aforementioned products | 66.03 | 66.11 | |
| Test-Rite Quickbuy Co., Ltd. | Lih Teh International held 100% | Sale of articles for daily use | - | 100.00 | Liquidated in February 2010 |
| Covalue Consultant Co., Ltd. | Lih The International held 80.00% | Consultant of business operation | 80.00 | 80.00 | |
| Hola Homefurnishings Co., Ltd. | Lih Chiou held 100.00% | Sales of furniture, bedclothes, kitchen equipment and fixtures | 100.00 | - | Established in September 2010 |
| Homy Homefurnishings Co., Ltd. | Lih Chiou held 100.00% | Sales of furniture, bedclothes, kitchen equipment and fixtures | 100.00 | - | Established in September 2010 |
| Freer Inc. | Lih Chiou held 100.00% | Sales of furniture, bedclothes, kitchen equipment and fixtures | 100.00 | - | Established in September 2010 |
| 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. | Test-Rite Retail held 100.00% | Interior design | 100.00 | 100.00 | |
| Lucky International (Samoa) Ltd. | Tong Lung Metal Industry held 100% | Investment | 66.03 | 66.11 | |

(Concluded)

As of December 31, 2010 and 2009, Test-Rite and subsidiaries (collectively, the "Company") have 8,037 and 6,753 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 2010 and 2009, please see Note 1.

a. The information of subsidiaries not included in the consolidated financial statements for 2010 and 2009: 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**

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. 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.

Under the equity method of accounting, the cost of investment is allocated to the assets and liabilities of the investee on the basis of their fair values at the date of investment, and the excess of the cost of the investment over the fair value of identifiable net assets, representing goodwill, is not amortized but tested for impairment annually.

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.

**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 of the assets. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives.

| | |
|---|---|
| Buildings and improvements | 3-60 years |
| Machinery and equipment | 2-20 years |
| Transportation equipment | 3-5 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.

**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 3 to 5 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 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.

When treasury stock is retired, the capital surplus - additional paid-in capital account and capital stock account should be debited according to the ratio of the retired treasury shares to the total issued shares. If the book value of the treasury stock being retired exceeds the sum of its aggregate par value and capital surplus - additional paid-in capital, the excess is debited to capital surplus from treasury stock transactions. If the capital surplus is not enough for debiting purposes, the difference is debited to unappropriated retained earnings. If the book value of the treasury stock being retired is less than the sum of its aggregate par value and capital surplus - additional paid-in capital, the difference is credited to the capital surplus from treasury stock transactions.

The book value of the treasury stock is calculated by weighted-average method.

Test-Rite adopted the provisions of Statement of Financial Accounting Standards No. 30 "Accounting for 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.

## 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.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Cash on hand | $ 16,979 | $ 16,342 |
| Petty cash | 28,051 | 21,876 |
| Checking deposits | 23,078 | 159,076 |
| Savings deposits | 410,480 | 561,802 |
| Foreign currency deposits | 489,101 | 516,395 |
| Time certificates of deposit | 103,576 | 44,637 |
| Cash equivalents | 40,005 | 153 |
| | $ 1,111,270 | $ 1,320,281 |

As of December 31, 2010 and 2009, the time certificates of deposit of Tong Lung of $2,410 thousand and $2,407 thousand, respectively, which were pledged as collaterals for purchases of raw materials were reclassified to refundable deposits paid.

As of December 31, 2010 and 2009, the time certificates of deposit of Tony Construction of $88,034 thousand and $71,909 thousand, respectively, which were pledged as collaterals for warranties of construction were reclassified to refundable deposits paid.

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 16.

## 5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as of December 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Financial assets held for trading - current | | |
| Equity securities marketable on Taiwan Stock Exchange and Over-the-counter market | $ 46,206 | $ 3,025 |
| Open-end funds | 462,617 | 713,103 |
| Offshore mutual funds | 2,554 | 2,848 |
| Real estate funds | 3,371 | 2,993 |
| Corporate bonds | 266 | 4,245 |
| Receivable on forward contracts, net | 84,351 | 107 |
| Receivable on short selling stocks | - | 2,652 |
| | $ 599,365 | $ 728,973 |
| Financial liabilities held for trading - current | | |
| Payable on forward contracts, net | $ 825 | $ 19,026 |
| Put option on convertible preferred stocks (Note 22) | 13,895 | - |
| Cross-currency swap contracts | 514 | - |
| Payable on short selling stocks | - | 2,652 |
| | $ 15,234 | $ 21,678 |
| Financial liabilities held for trading - noncurrent | | |
| Put option on convertible preferred stocks | $ - | $ 11,130 |

As of December 31, 2009, short selling in the investment amounted to $2,652 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 deposit for short selling amounted to $2,401 thousand was included in financing deposits under other financial assets, current.

The Company entered into derivative contracts during the years ended December 31, 2010 and 2009 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, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Equity securities listed in open market | $ 1,470 | $ 1,554 |
| Benefit certificate of domestic funds | 831 | 9,596 |
| | $ 2,301 | $ 11,150 |

## 7. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Non-related parties | | |
| Notes receivable | $ 63,970 | $ 68,846 |
| Less allowance for doubtful accounts | - | - |
| | 63,970 | 68,846 |
| Accounts receivable | 2,138,587 | 1,562,631 |
| Less allowance for doubtful accounts | (16,132) | (10,174) |
| | 2,122,455 | 1,552,457 |
| | $ 2,186,425 | $ 1,621,303 |

Test-Rite concluded an accounts receivable factoring agreement with Taishin International Bank. 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.

As of December 31, 2010 and 2009, 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 (%) | Retention for Factoring | Credit Line | Collateral |
|---|---|---|---|---|---|---|---|---|---|
| 2010 | | | | | | | | | |
| Taishin International Bank | $ 34,045 (Note 2) | $ 71,175 (Note 3) | $ 50,862 (Note 4) | $ 54,358 (Note 5) | $ 48,922 (Note 6) | 1.63 | $ 5,436 (Note 7) | US$ 9,200,000 | US$ 920,000 |
| UPS & Fubon | $ 258,329 (Note 8) | $ 2,227,885 (Note 9) | $ 2,223,077 (Note 10) | $ 263,137 (Note 11) | $ 236,823 (Note 12) | 90 days Libor +3% | $ 26,314 (Note 13) | - | - |
| 2009 | | | | | | | | | |
| Taishin International Bank | $ - | $ 69,132 (Note 3) | $ 31,698 (Note 4) | $ 37,434 (Note 5) | $ 33,691 (Note 6) | 1.43 | $ 3,743 (Note 7) | US$11,200,000 | US$ 1,120,000 |
| UPS | $ 377,047 (Note 8) | $ 1,938,220 (Note 9) | $ 2,031,221 (Note 10) | $ 284,046 (Note 11) | $ 248,635 (Note 12) | 90 days Libor +3% | $ 35,411 (Note 13) | - | - |

Note 1: Balance at end of year of factored receivables had been derecognized as accounts receivable.
Note 2: US$1,168,725.
Note 3: US$2,443,375; US$2,158,367.
Note 4: US$1,746,042; US$989,642.
Note 5: US$1,866,058; US$1,168,725.
Note 6: US$1,679,452; US$1,051,853.
Note 7: US$186,606; US$116,872.
Note 8: US$8,868,131; US$11,771,673.
Note 9: US$76,840,781; US$60,512,648.
Note 10 US$76,315,711; US$63,416,190.
Note 11: US$9,033,200; US$8,868,131.
Note 12: US$8,129,880; US$7,762,557.
Note 13: US$903,320; US$1,105,574.

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, accounts receivable of $65,387 thousand was pledged to secure short-term bank borrowings (see Notes 17 and 30).

## 8. OTHER RECEIVABLES

Other receivables as of December 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Retention for factoring (see Note 7) | $ 31,750 | $ 39,154 |
| Commissions receivable | 17,718 | 18,822 |
| Value added tax refunds receivable | 20,831 | 11,027 |
| Receivables from related parties (see Note 29) | 5,809 | 5,683 |
| Others | 201,948 | 231,794 |
| | $ 278,056 | $ 306,480 |

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

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

## 9. INVENTORIES

Inventories as of December 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Merchandise - retail | $ 3,076,471 | $ 2,636,546 |
| Merchandise - trade | 693,306 | 842,156 |
| Raw materials | 537,650 | 349,562 |
| Work-in-process | 133,429 | 104,565 |
| Finished goods | 44,177 | 41,888 |
| Merchandise - manufacturing | 59,512 | 6,849 |
| Construction in progress | 191,185 | 103,597 |
| | $ 4,735,730 | $ 4,085,163 |

As of December 31, 2010 and 2009, the allowance for inventory devaluation was $186,628 thousand and $114,033 thousand, respectively. The cost of inventories recognized as cost of goods sold for the years ended December 31, 2010 and 2009 was $21,660,753 thousand and $19,087,859 thousand, respectively. The cost of inventories of $21,660,753 thousand included $22,448 thousand of write downs of inventories and $63,026 thousand of loss on physical inventory count for the year ended December 31, 2010; 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.

Merchandise - retail 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 Vietnam, TR Development, Test-Rite Int'l (U.S.), TR Thailand, Chung Cin and Tony Construction.

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, Chung Cin Interior Design Construction, Test Cin M&E Engineering and Viet Han.

## 10. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

Long-term equity investments at equity method as of December 31, 2010 and 2009 consist of the following:

| | 2010 | | | 2009 | |
|---|---|---|---|---|---|
| | **Original Accumulated Cost** | **Carrying Value** | **Ownership Percentage** | **Carrying Value** | **Ownership Percentage** |
| At equity method | | | | | |
| Test-Rite Int'l (Mexico) Ltd. | $ 4,493 | $ 983 | 49.00 | $ 147 | 49.00 |

Equities in earnings (loss) of TR Mexico for the years ended December 31, 2010 and 2009 are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| TR Mexico | $ 301 | $ (3,077) |

TR Mexico is engaged in importation and exportation.

## 11. INVESTMENTS IN REAL ESTATE

| | 2010 | 2009 |
|---|---|---|
| Land | $ 10,228 | $ 10,228 |
| Buildings and improvement | 5,634 | 5,633 |
| | 15,862 | 15,861 |
| Accumulated depreciation | (1,585) | (1,483) |
| | $ 14,277 | $ 14,378 |

Real estate investments of Lih Teh for the years ended December 31, 2010 and 2009 amounting to $14,277 thousand and $14,378 thousand, respectively, have been rented to a third party. The rental income for the years ended December 31, 2010 and 2009 amounting to $773 thousand and $909 thousand was reported as other revenue.

## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

| | 2010 | 2009 |
|---|---|---|
| Deposit funds of real estate | $ 30,000 | $ 30,000 |
| Equity securities listed in Hong Kong Stock Exchange | 4,682 | - |
| Unrealized loss on available-for-sale financial assets | (5,473) | (5,460) |
| | $ 29,209 | $ 24,540 |

## 13. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

| | 2010 | | | 2009 | |
|---|---|---|---|---|---|
| | Original Accumulated Cost | Carrying Value | Ownership Percentage% | Carrying Value | Ownership Percentage% |
| Hwa Jan International Co., Ltd. (Samoa) | $ 9,849 | $ 8,856 | 19.00 | $ 9,737 | 19.00 |
| TEPRO | 430 | 340 | 10.00 | 415 | 10.00 |
| Grandcathy Venture Capital Co., Ltd. | 40,000 | 40,000 | 5.00 | 40,000 | 5.00 |
| NCTU Springl Technology Capital Co., Ltd. | 6,032 | 6,032 | 4.69 | 9,032 | 4.69 |
| Yuan Chuang Co., Ltd. | 1,950 | 1,950 | 1.67 | 2,166 | 1.00 |
| Techgains Pan-Pacific Co., Ltd. | 19,191 | 18,210 | 0.81 | 19,080 | 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 |
| Emit Technology Co., Ltd. | 2 | 2 | - | 10,842 | 4.58 |
| Nucom International Co., Ltd. | 37,086 | 27,400 | 1.57 | 27,400 | 1.57 |
| Hong Da Electronic Co., Ltd. | 2,000 | - | 0.72 | - | 0.72 |
| Yieh United Steel Co., Ltd. | 3,920 | 3,920 | 0.02 | 3,920 | 0.02 |
| China Semiconductor Co., Ltd. | 767 | - | - | 546 | 0.42 |
| Shanghai Commercial & Saving Bank, Ltd. | 1,903 | 1,903 | - | 1,903 | - |
| | $ 129,713 | $ 115,196 | | $ 131,624 | |

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

In 2010, China Semiconductor Co., Ltd. reduced its capital by 99.999986% to offset deficit, and the Company recorded $546 thousand of investment loss.

## 14. BOND INVESTMENTS WITH NO ACTIVE MARKET, NONCURRENT

| | 2010 | | | 2009 | |
|---|---|---|---|---|---|
| | Original Accumulated Cost | Carrying Value | Ownership Percentage% | Carrying Value | Ownership Percentage% |
| Subordinated bond of Ta Chong Bank | $ 50,000 | $ 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.

## 15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2010 and 2009 consist of the following:

| | 2010 | | | | 2009 |
|---|---|---|---|---|---|
| | **Original Cost** | **Revaluation Increments** | **Accumulated Depreciation** | **Carrying Value** | **Carrying Value** |
| Land | $ 654,435 | $ 104,515 | $ - | $ 758,950 | $ 758,950 |
| Buildings and improvements | 1,515,629 | - | 436,012 | 1,079,617 | 1,071,948 |
| Machinery and equipment | 940,148 | - | 766,090 | 174,058 | 329,805 |
| Transportation equipment | 106,782 | - | 65,322 | 41,460 | 40,608 |
| Furniture, fixtures and office equipment | 299,746 | - | 187,053 | 112,693 | 222,523 |
| Leasehold improvements | 6,188,035 | - | 3,022,807 | 3,165,228 | 3,162,843 |
| Molds and tools | 124,751 | - | 28,932 | 95,819 | 75,789 |
| Other equipment | 1,651,022 | - | 1,102,960 | 548,062 | 163,973 |
| Construction in progress and prepayments for property, plant and equipment | 431,814 | - | - | 431,814 | 378,258 |
| | $ 11,912,362 | $ 104,515 | $ 5,609,176 | $ 6,407,701 | $ 6,204,697 |

As of December 31, 2010 and 2009, the cost of the leased-out land of Test-Rite was $267,519 thousand and $267,519 thousand and the carrying value of leased-out buildings and improvements was $244,019 thousand and $253,281 thousand, respectively.

Revaluation increments are recognized on Tong Lung.

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. Test-Rite recorded $2,347,885 thousand unrealized gain, which is amortized during 10-year lease term. For the years ended December 31, 2010 and 2009, the amortization of unrealized gain was $234,788 thousand, which was treated as a reduction of rental cost. As of December 31, 2010 and 2009, the unrealized gain was $1,643,520 thousand and $1,878,308 thousand, respectively. Based on the liquidity of the unrealized gain, $234,789 thousand was recorded under other current liability on both dates and $1,408,731 thousand and $1,643,519 thousand, respectively, were recorded under other liabilities - deferred credit.

As of December 31, 2010 and 2009, the carrying value of property, plant and equipment of Tong Lung, Jiashan Te-Cheng Wood Industrial, Test-Rite Business Development, and TR Thailand, pledged to secure short-term and long-term debt and provided as collaterals to bank was as follows (see Note 30; as of December 31, 2010, the credit line of Tong Lung was unused.):

| | 2010 | 2009 |
|---|---|---|
| Land | $ 208,875 | $ 208,875 |
| Buildings and improvements | 297,950 | 323,685 |
| | $ 506,825 | $ 532,560 |

## 16. OTHER ASSETS

Other assets as of December 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Deferred tax asset, noncurrent (see Note 28) | $ 892,180 | $ 915,330 |
| Refundable deposits paid | 844,777 | 783,089 |
| Deferred charges (see Note 2) | 316,899 | 320,505 |
| Restricted assets (see Note 4) | - | 35,380 |
| Others | 873,967 | 1,065,972 |
| | $ 2,927,823 | $ 3,120,276 |

## 17. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings as of December 31, 2010 and 2009 consist of the following:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Interest Rate % | Amount | Interest Rate % | Amount |
| Unsecured loans | 0.75-5.35 | $ 2,752,840 | 1.10-7.50 | $ 2,705,092 |
| Secured loans | 0.96-5.103 | 115,578 | 1.126-5.103 | 299,254 |
| | | $ 2,868,418 | | $ 3,004,346 |

As of December 31, 2010, secured loan of $111,728 thousand was secured by the buildings and improvement of Jiashan Te-Cheng Wood Industrial, and $3,850 thousand was secured by the buildings and improvements of TR Thailand (see Note 30).

As of December 31, 2009, secured loan of $65,387 thousand was secured by the accounts receivable of TR Int’l (U.S.) and $130,000 thousand was secured by the land and buildings and improvements of Tong Lung. Secured loan of $103,867 thousand was secured by buildings and improvements of Jiashan Te-Cheng Wood Industrial (see Notes 7 and 30).

## 18. SHORT-TERM BILLS PAYABLE

Short-term bills payable as of December 31, 2010 and 2009 consist of the following:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Interest Rate % | Amount | Interest Rate % | Amount |
| Commercial paper, unsecured | 1.0287 | $ 41,000 | 1.088 | $ 80,000 |

## 19. OTHER PAYABLES

Other payables as of December 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Accrued expenses | $ 1,073,035 | $ 749,968 |
| Payables for purchase of property, plant and equipment | 207,049 | 76,581 |
| Other notes payable | 34,480 | 31,596 |
| Bonuses payable to employees | 45,444 | 19,856 |
| Bonuses payable to directors and supervisors | 29,169 | 11,760 |
| Others | 396,618 | 393,685 |
| | $ 1,785,795 | $ 1,283,446 |

## 20. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2010 and 2009 consist of the following:

| | 2010 | 2009 |
|---|---|---|
| Unrealized gain on sale-leaseback (Note 15) | $ 234,789 | $ 234,789 |
| Accrued VAT payable | 14,020 | 20,860 |
| Receipts under custody | 18,151 | 18,706 |
| Allowance for indemnity losses on exports (see Note 2) | 24,543 | 3,446 |
| Others | 117,533 | 126,641 |
| | $ 409,036 | $ 404,442 |

## 21. LONG-TERM DEBT

Long-term debt as of December 31, 2010 and 2009 consists of the following:

| | 2010 | | 2009 |
|---|---|---|---|
| | Interest Rate | Amount | Amount |
| Taishin International Bank | | | |
| Unsecured loan from July 20, 2010 to July 20, 2012. Interest is paid monthly, principal due on July 20, 2012. | 1.38 | $ 300,000 | $ 200,000 |
| Ta Chong Bank | | | |
| Unsecured loan from May 16, 2008 to November 30, 2012. Interest is paid monthly, principal due on November 30, 2012. | 1.59 | 600,000 | 600,000 |
| Bank SinoPac Co., Ltd. | | | |
| Unsecured loan from March 31, 2010 to March 31, 2013. Interest is paid monthly, principal due on March 31, 2013. | 1.218 | 500,000 | 500,000 |

(Continued)

| | 2010 | | 2009 |
|---|---|---|---|
| | Interest Rate | Amount | Amount |
| Shanghai Commercial & Savings Bank | | | |
| Unsecured loan from November 22, 2010 to November 22, 2014, the first installment on February 21, 2013 and principal due in eight quarterly installments. Interest is paid monthly. | 1.56 | $ 300,000 | $ 200,000 |
| Unsecured loan from February 1, 2008 to March 1, 2010. Interest is paid monthly, principal due on monthly installment for 25 times. | - | - | 600 |
| Land Bank's Syndicate Loan | | | |
| Unsecured loan from December 22, 2010 to July 25, 2012, and June 3, 2009 to July 25, 2012. Interest is paid monthly, principal due on July 25, 2012. The authorized credit line of $3,000 million or US$85 million may be used on revolving basis for a period until July 25, 2012. | 0.9025-1.2905 | 2,419,980 | 2,500,000 |
| Jihsun Bank | | | |
| Unsecured loan from September 21, 2010 to July 1, 2013. Interest is paid monthly, principal due on July 1, 2013. | 1.57 | 200,000 | - |
| Taiwan Business Bank | | | |
| Unsecured loan from November 22, 2010 to November 22, 2015. Principal is paid in 12 quarterly payments starting from February 15, 2013. Interest is paid monthly. | 1.66 | 500,000 | - |
| First Sino Bank | | | |
| Pledged loan from June 24, 2008 to June 23, 2013. Interest is paid monthly. Principal is paid monthly for 50 months starting from the second year after the day of the first borrowing. | 5.5575-6.7586 | 102,718 | 45,418 |
| Taiwan Business Bank's Syndicate Loan | | | |
| 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. | 1.7895-1.8421 | 750,000 | 820,000 |
| Yuanta Bank | | | |
| Pledged loan from December 11, 2008 to December 10, 2011. Interest is paid monthly. Principal paid in quarterly installments. In March 2010 and June 2010, the Company paid the principal in advance. | 3.75 | - | 300,000 |

(Continued)

| | 2010 | | 2009 |
|---|---|---|---|
| | Interest Rate | Amount | Amount |
| Chang Hwa Bank | | | |
| Unsecured loan from May 19, 2008 to May 19, 2011. Interest is paid monthly. Principal is paid in 12 quarterly installments. In June 2010, Company paid the principal in advance. | - | $ - | $ 200,000 |
| | | 5,672,698 | 5,366,018 |
| Less current portion | | (12,188) | (346,983) |
| | | $ 5,660,510 | $ 5,019,035 |

(Concluded)

As of December 31, 2010, Test-Rite promised to maintain the financial covenants according to the loan agreements respectively as the following:

**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 sale-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 the year 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 the year ended December 31.

**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 sale-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 Test-Rite financial statements for the year 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 sale-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 the year ended December 31.

**Jihsun 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 sale-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 Test-Rite financial statements for the year ended December 31.

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

a. Total Liabilities Ratio, Test-Rite shall maintain a ratio of Bank Loans and Bills Payable to Tangible Assets of not more than 2 to 1.

b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Short-Term Bank Loans and Short-Term Bills Payable 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.

d. The calculations of the ratios are based on Test-Rite Retail financial statements for the year ended December 31.

According to the loan agreement, Lih Chiou promised to maintain certain financial covenants 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. The cash dividends received from Test-Rite Retail should be transferred to the bank account of Yuanta Bank.

c. Lih Chiou had redeemed the long-term debt with Yuanta Bank in March 2010 and June 2010. Consequently, the pledges of time deposits and shares of Test-Rite Retail for Lih Chiou had been released. Please refer to Note 30.

See Note 30 for collaterals on bank borrowings.

See Note 29 for guarantees on bank borrowings.

## 22. LIABILITY COMPONENT OF PREFERRED STOCKS - NONCURRENT

| | 2010 | 2009 |
|---|---|---|
| Private placement of liability component of series B preferred stocks | $ 326,996 | $ 318,631 |

**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, 2010, embedded derivatives which are measured at fair value amounted to $13,895 thousand; liabilities which do not belong to derivatives financial instruments amounted to $326,996 thousand. As of the balance sheet date, none of the preferred stockholders requested to convert their preferred stocks into common stocks.

## 23. 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, 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.

| | 2010 | 2009 |
|---|---|---|
| Service cost | $ 13,989 | $ 15,821 |
| Interest cost | 15,215 | 15,921 |
| Actual return on plan assets | (192) | (3,415) |
| Expected return on plan assets | (8,649) | (5,773) |
| Amortization of net transitional obligation | 10,363 | 10,765 |
| Amortization of pension loss | 2,357 | 1,540 |
| Additional personnel cost | - | 3,173 |
| | $ 33,083 | $ 38,032 |

The following table sets forth the actuarial assumptions and plan's status as of December 31, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Weighted-average discount rate | 2.00%-2.50% | 2.00%-3.00% |
| Expected rate of return on plan assets | 2.00%-2.25% | 2.00%-3.00% |
| Assumed rate of increase in salary | 1.00%-3.00% | 1.00%-3.00% |

| | 2010 | 2009 |
|---|---|---|
| Actuarial present value of benefit obligation | | |
| Vested benefits | $ (231,369) | $ (203,549) |
| Nonvested benefits | (357,233) | (340,012) |
| Accumulated benefit obligation | (588,602) | (543,561) |
| Additional benefits at future salaries | (136,794) | (127,765) |
| Projected benefit obligation | (725,396) | (671,326) |
| Plan assets at fair value | 412,627 | 392,448 |
| Projected benefit obligation in excess of plan assets | (312,769) | (278,878) |
| Net transition asset not yet recognized | (9,334) | (5,141) |
| Net pension loss not yet recognized | 201,962 | 156,611 |
| Additional pension liability | 14,960 | 15,789 |
| Accrued pension cost | (109,485) | (82,965) |
| | (214,666) | (194,584) |
| Prepaid pension cost (included in prepayments) | (33,566) | (24,621) |
| Deferred pension cost | (26,458) | (33,369) |
| Accrued pension liability (included in other liabilities) | $ (274,690) | $ (252,574) |

## 24. CAPITAL STOCK

Test-Rite's capital stock as of December 31, 2010 and 2009 consists of the following:

| | 2010 | 2009 |
|---|---|---|
| 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) | 516,423 | 531,223 |
| Par value (in dollars) | $ 10 | $ 10 |
| Capital | $ 5,164,228 | $ 5,312,228 |

Test-Rite's outstanding capital stock as of January 1, 2010, amounted to $5,312,228 thousand. On August 10, 2010, the board of directors decided to retire treasury stock of $148,000 thousand and decrease the capital. Consequently, as of December 31, 2010, Test-Rite's capital stock decreased to $5,164,228 thousand consisting of 516,422,872 outstanding common shares with a par value of $10 dollars each.

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.

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, 2010 | |
|---|---|---|
| | 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 15, 2010 and June 16, 2009, the stockholders decided to distribute retained earnings for 2009 and 2008 as follows:

| | 2009 | |
|---|---|---|
| | Distributions of Earnings | Dividends Per Share (In Dollars) |
| Legal reserve | $ 13,677 | $ - |
| Cash dividends | 125,825 | 0.26 |

| | 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 |

The bonus to employees of $9,848 thousand and $17,334 thousand and the bonus to directors and supervisors of $2,462 thousand and $4,209 thousand directly charged to expense were approved in the stockholders' meeting. Bonus to employees in 2008 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 amounts of the bonus to employees and the bonus to directors and supervisors approved in 2010 were $9,848 thousand and $2,462 thousand and the related amounts accrued in 2009 were $9,300 thousand and $1,900 thousand or differences of $548 thousand and $562 thousand, respectively. The amounts of the bonus to employees and the bonus to directors and supervisors approved in 2009 were $17,334 thousand and $4,209 thousand and the related amounts accrued in 2008 were $19,000 thousand and $4,800 thousand or differences of $1,666 thousand and $(591) thousand, respectively. The differences were not material and had been adjusted in profit and loss for the years ended December 31, 2010 and 2009.

For the years ended December 31, 2010 and 2009, the earnings per share was calculated as follows:

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | $ 871,643 | $ 620,166 | $ 486,818 | 483,942,872 | $ 1.80 | $ 1.28 | $ 1.01 |
| The effects of dilutive potential ordinary shares | | | | | | | |
| Bonus to employees | - | - | - | 1,252,174 | - | (0.01) | (0.01) |
| Diluted earnings per share | | | | | | | |
| Net income to stockholders of common stock and the effects of potential ordinary shares | $ 871,643 | $ 620,166 | $ 486,818 | 485,195,046 | $ 1.80 | $ 1.27 | $ 1.00 |

| | 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 |

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.

Regarding the 2009 and 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 years ended December 31, 2010 and 2009, the bonus to employees was $28,800 thousand and $9,300 thousand, respectively, and the bonuses to directors and supervisors were $7,300 thousand and $1,900 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.

## 25. 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.

## 26. TREASURY STOCK

The changes of treasury stock for the years ended December 31, 2010 and 2009 are summarized as follows (in shares):

| Purpose | 2010.1.1 | Increase | Decrease | 2010.12.31 |
|---|---|---|---|---|
| To transfer to employees | 47,280,000 | - | 14,800,000 | 32,480,000 |

| Purpose | 2009.1.1 | Increase | Decrease | 2009.12.31 |
|---|---|---|---|---|
| To transfer to employees | 47,280,000 | - | - | 47,280,000 |

As of December 31, 2010 and 2009, the treasury stock of Test-Rite was $616,417 thousand and $897,297 thousand, respectively, which was purchased back by Test-Rite.

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

Since some of the shares, purchased back by Test-Rite from time to time for the purpose of transferring to employees, were not transferred within the legal maturity (three years from the buyback date), Test-Rite retired 14,800,000 shares of them and got the retirement approval from Ministry of Economic Affairs (MOEA) in September 2010.

According to the Stock Exchange Law of the ROC, the shares of treasury stock should not be over 10% of Test-Rite'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, 2010 and 2009 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.

## 27. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2010 and 2009 are summarized as follows:

| Function / Expense Item | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Operating Costs** | **Operating Expenses** | **Total** | **Operating Costs** | **Operating Expenses** | **Total** |
| Personnel expenses | | | | | | |
| Salaries | $ 450,310 | $ 2,845,148 | $ 3,295,458 | $ 300,591 | $ 2,852,709 | $ 3,153,300 |
| Labor insurance and health insurance | 28,153 | 183,847 | 212,000 | 23,388 | 170,986 | 194,374 |
| Pension cost | 27,713 | 119,313 | 147,026 | 22,821 | 109,822 | 132,643 |
| Others | 30,670 | 248,740 | 279,410 | 26,566 | 285,946 | 312,512 |
| Depreciation expenses | 108,579 | 679,333 | 787,912 | 96,041 | 666,506 | 762,547 |
| Amortization expenses | 2,471 | 100,855 | 103,326 | 7,723 | 86,074 | 93,797 |

## 28. INCOME TAX

The components of income tax expense for the year ended December 31, 2010 are as follows:

| | |
|---|---|
| Tax expenses from entities generating net income | $ 160,197 |
| Tax credits from entities generating net loss | (70,626) |
| Tax credit | (350) |
| Effect of tax law changes on deferred income tax | 105,353 |
| Deferred tax asset adjustment and change in adjustment of valuation allowance | 8,328 |
| Adjustment of prior years' tax expenses | 48,575 |
| Income tax expense | $ 251,477 |

The tax effects of deductible temporary differences that gave rise to deferred tax assets as of December 31, 2010 are as follows:

| | |
|---|---|
| Losses carryforward | $ 10,680 |
| Investment tax credits | 9,400 |
| Investment loss recognized under equity method | 516,800 |
| Others | 395,882 |
| Difference between tax | (180) |
| | 932,582 |
| Less valuation allowance | (3,640) |
| Net deferred tax assets | $ 928,942 |
| Deferred tax assets, current (included in other current assets) | $ 36,942 |
| Deferred tax assets, noncurrent (included in other assets) | 892,180 |
| Deferred tax liabilities, noncurrent (included in other liabilities) | (180) |
| | $ 928,942 |

Current income tax for the year ended December 31, 2010 and income tax payable as of December 31, 2010 are generated as follows:

| | |
|---|---|
| Income tax expense at statutory rate | $ 300,051 |
| Decrease in tax resulting from others | (139,854) |
| Current tax expense | 160,197 |
| Provision for deferred income tax assets | |
| Others | (11,713) |
| Income tax payable | 148,484 |
| Less prepayments and withholdings in 2010 | (38,076) |
| Less tax credit | (350) |
| Add income tax payable for the prior years | 40,726 |
| Income tax payable as of December 31, 2010 | $ 150,784 |

The reported prepaid income tax and withholdings of $18,317 thousand as of December 31, 2010 were income tax prepayments in 2010 and prior years.

Losses carryforward as of December 31, 2010 for income tax purposes are as follows:

| **Year Expired** | **Amount** |
|---|---|
| 2013 | $ 1,100 |
| 2018 | 2,290 |
| 2019 | 7,290 |
| | $ 10,680 |

Investment and research and development tax credits as of December 31, 2010 are as follows:

| Year Expired | Investment Tax Credits | Human Resources Development Tax Credits | Research and Development Tax Credits | Total |
|---|---|---|---|---|
| 2012 | $ - | $ - | $ 900 | $ 900 |
| 2013 | 500 | 200 | 6,900 | 7,600 |
| 2014 | 900 | - | - | 900 |
| | $ 1,400 | $ 200 | $ 7,800 | $ 9,400 |

The information of Test-Rite about Imputation Credit ("IC") on the undistributed earnings as of December 31, 2010 was summarized as follows:

| | |
|---|---|
| IC on undistributed earnings as of December 31, 2010 | $ 395,015 |
| Undistributed earnings in years from 1998 and after | $ 375,489 |
| Expected IC ratio on distributed earnings in 2011 | 20.48% |
| Actual IC ratio on distributed earnings in 2010 | 33.77% |

The income tax returns of Test-Rite for years through 2008 have been examined and approved by the tax authority. The tax authority assessed an additional income tax payable because Test-Rite did not obtain legal evidence for commission expenses and others which Test-Rite reported on its 2006 to 2008 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, Test-Rite decided not to record the disputed tax payable on its book.

## 29. 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 |
| Judy Lee | Chairman of Test-Rite |
| 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, 2010 and 2009 is summarized below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Others | $ 201 | - | $ 201 | - |

**Service Income**

Service income from related parties for the years ended December 31, 2010 and 2009 is summarized below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Others | $ 960 | 5 | $ 960 | 5 |

**Selling, General and Administrative Expenses - Commission Expenses**

Commission expenses to related parties for the years ended December 31, 2010 and 2009 are summarized below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| TR Mexico | $ 18,755 | 8 | $ 15,926 | 6 |

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, 2010 and 2009 is summarized below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Advances for related parties | | | | |
| TR Mexico | $ 5,809 | 100 | $ 5,683 | 100 |

**Due to Related Parties**

Due to related parties as of December 31, 2010 and 2009 is summarized below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Accrued commission expenses | | | | |
| TR Mexico | $ 711 | 2 | $ 1,296 | 3 |

**Payment of Credit Guarantees**

Endorsements or guarantees that Test-Rite provided to its business related legal entities and subsidiaries are summarized in Note 31.

As of December 31, 2010, short-term bank borrowings of $337,908 thousand were guaranteed by Tony Ho and Judy Lee. Short-term bank borrowings of $40,000 thousand were guaranteed by Tony Ho and $58,260 thousand were guaranteed by Judy Lee.

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, 2010, long-term debt of $900,000 thousand was guaranteed by Tony Ho and Judy Lee. Long-term debt of $2,419,980 thousand was guaranteed by Tony Ho and $1,500,000 thousand was guaranteed by 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.

**Compensation of Directors, Supervisors and Management Personnel**

| | Years Ended December 31 | |
|---|---|---|
| | **2010** | **2009** |
| Salaries | $ 157,458 | $ 136,991 |
| Incentives | 8,143 | 15,763 |
| Bonuses | 13,212 | - |
| | $ 178,813 | $ 152,754 |

Compensation of directors, supervisors and management personnel for 2010 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 2010 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, 2009 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.

## 30. PLEDGED ASSETS

Assets pledged for various purposes as of December 31, 2010 and 2009 are summarized as follows:

| | **2010** | **2009** |
|---|---|---|
| Accounts receivable (see Note 7) | $ - | $ 65,387 |
| Time deposits (see Note 4) | 90,444 | 138,316 |
| Long-term equity investments at equity method | - | 4,247,779 |
| Land (see Note 15) | 208,875 | 208,875 |
| Buildings and improvements (see Note 15) | 297,950 | 323,685 |
| Restricted assets (see Note 4) | - | 35,380 |
| | $ 597,269 | $ 5,019,422 |

As of December 31, 2009, Test-Rite Retail had 75,000,000 of its shares, pledged as collateral for Lih Chiou to raise a loan at Yuanta Bank. The face value of these shares was $4,247,779 thousand (see Note 21).

## 31. COMMITMENTS AND CONTINGENCIES

**Letter of Credit**

Test-Rite's outstanding letters of credit not reflected on the accompanying financial statements as of December 31, 2010 is US$6,387 thousand and EUR160 thousand.

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.

Endorsements/guarantees provided: As of December 31, 2010 and 2009, endorsements or guarantees that the Company provided to its business related legal entities and subsidiaries are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| Standby letters of credit | | |
| TR Products | US$ 2,750 | US$ 2,750 |
| Endorsements | | |
| TR Products | US$ 21,480 | US$ 22,430 |
| Hola Shanghai Retail & Trading Ltd. | US$ 18,176 | US$ 23,261 |
| TR Trading & TR Retailing | US$ 5,375 | US$ 6,500 |
| TR Trading | US$ 3,000 | US$ 3,600 |
| Energy Retailing | US$ 3,000 | US$ - |
| TR Development | US$ 2,000 | US$ 4,000 |
| Test-Rite Business Development | US$ 2,000 | US$ 8,700 |
| Jiashan Te-Cheng Wood Industrial | US$ 500 | US$ 4,050 |
| TR GI | EUR 1,000 | EUR - |
| B&S Link Shanghai Co., Ltd. | US$ - | US$ 300 |

Tong Lung's outstanding funding letters of credit for purchases of raw material and equipment amounted to approximately $39,578 thousand and US$2,927 thousand on December 31, 2010.

Tong Lung has materials ordered but not yet received of approximately $147,012 thousand on December 31, 2010.

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, 2010, Tong Lung has refundable deposits paid in banks of $47,530 thousand in order to purchase raw material.

As of December 31, 2010, Test-Rite Retail's outstanding letters of credit for purchase of inventory amounted to approximately US$206 thousand and EUR36 thousand.

As of December 31, 2010, Test-Rite Retail has import duty relief on temporary admission, coupon execution guarantee and CPC Corporation guarantee rendered by banks for approximately $54,588 thousand.

## 32. DISCLOSURES FOR FINANCIAL INSTRUMENTS

### Nominal Amount and Credit Risk

The forward exchange contract and cross-currency swap contract as of December 31, 2010 and 2009 are summarized below:

| | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| **Financial Instruments** | **Type** | **Nominal Amount** | **Credit Risk** | **Nominal Amount** | **Credit Risk** |
| Non-trading purpose | | | | | |
| Forward exchange | Sale | US$ 238,000 | - | US$ 220,000 | - |
| | Sale | EUR 500 | - | EUR 2,853 | - |
| | Buy | US$ 210,531 | - | US$ 147,119 | - |
| Cross-currency swap | Buy | RMB 13,376 | - | - | - |

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 $117,147 thousand and $163,612 thousand for the years ended December 31, 2010 and 2009, 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, 2010 and 2009 is summarized as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Assets | | | | |
| Cash and cash equivalents | $ 1,111,270 | $ 1,111,270 | $ 1,320,281 | $ 1,320,281 |
| Financial assets at fair value through profit or loss, current | 515,014 | 515,014 | 728,866 | 728,866 |
| Available-for-sale financial assets, current | 2,301 | 2,301 | 11,150 | 11,150 |
| Notes receivable | 63,970 | 63,970 | 68,846 | 68,846 |
| Accounts receivable | 2,122,455 | 2,122,455 | 1,552,457 | 1,552,457 |
| Other receivables | 278,056 | 278,056 | 306,480 | 306,480 |
| Other financial assets, current | 169 | 169 | 6,077 | 6,077 |

(Continued)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Long-term equity investments at equity method | $ 983 | $ 983 | $ 147 | $ 147 |
| Available-for-sale financial assets, noncurrent | 29,209 | 29,209 | 24,540 | 24,540 |
| Financial assets carried at cost, noncurrent | 115,196 | 115,196 | 131,624 | 131,624 |
| Bond investments with no active market, noncurrent | 50,000 | 50,000 | 50,000 | 50,000 |
| Refundable deposits paid | 844,777 | 844,777 | 783,089 | 783,089 |
| Liabilities | | | | |
| Short-term bank borrowings | 2,868,418 | 2,868,418 | 3,004,346 | 3,004,346 |
| Short-term bills payable | 41,000 | 41,000 | 80,000 | 80,000 |
| Financial liabilities at fair value through profit or loss, current | - | - | 2,652 | 2,652 |
| Notes payable | 16,270 | 16,270 | 8,364 | 8,364 |
| Accounts payable | 3,196,463 | 3,196,463 | 2,878,529 | 2,878,529 |
| Other payables | 1,785,795 | 1,785,795 | 1,283,446 | 1,283,446 |
| Current portion of long-term debt | 12,188 | 12,188 | 346,983 | 346,983 |
| Other financial liabilities, current | 38,563 | 38,563 | 24,697 | 24,697 |
| Long-term debt | 5,660,510 | 5,660,510 | 5,019,035 | 5,019,035 |
| Other financial liabilities, noncurrent | 103,846 | 103,846 | 2,125 | 2,125 |

(Concluded)

The fair value of derivative financial instruments as of December 31, 2010 and 2009 is summarized as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Financial assets at fair value through profit or loss, current | $ 84,351 | $ 84,351 | $ 107 | $ 107 |
| Financial liabilities at fair value through profit or loss, current | (1,339) | (1,339) | 19,026 | 19,026 |
| Put option on convertible preferred stock | (13,895) | (13,895) | (11,130) | (11,130) |

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 | $ 515,014 | $ 84,351 | $ 599,365 |
| Available-for-sale financial assets, current | 2,301 | - | 2,301 |
| Available-for-sale financial assets, noncurrent | 29,209 | - | 29,209 |
| Liabilities | | | |
| Financial liabilities at fair value through profit or loss, current | - | 15,234 | 15,234 |

## 33. OPERATING LEASE

The lease agreement of the land, buildings and improvements which Test-Rite entered into with non-related parties required Test-Rite to pay guarantee deposit of $131,703 thousand, which was recorded under "refundable deposits paid".

A list of rent expense for the next 5 years and the present value of rentals from 2016 to 2018 as of December 31, 2010 are summarized as follows:

| Period | Amount |
|---|---|
| 2011 | $ 273,182 |
| 2012 | 281,377 |
| 2013 | 289,818 |
| 2014 | 298,513 |
| 2015 | 307,468 |
| 2016-2018 (present value $290,095 thousand) | 642,886 |
| | $ 2,093,244 |

The lease agreement which Test-Rite entered into with non-related parties required Test-Rite to collect guarantee deposit of $30 thousand, which was recorded under "refundable deposits received." A list of rent revenue for the next 5 years as of December 31, 2010 is summarized as follows:

| Period | Amount |
|---|---|
| 2011 | $ 247 |
| 2012 | 255 |
| 2013 | 262 |
| 2014 | 270 |
| 2015 | 68 |
| | $ 1,102 |

As lessor, Chung Cin entered into lease agreements with non-related parties required Chung Cin to collect guarantee deposit of $11,105 thousand, which was recorded under "refundable deposits received." A list of rent revenue for the next 5 years and the present value of rentals from 2016 to 2025 as of December 31, 2010 are summarized as follows:

| Period | Amount |
|---|---|
| 2011 | $ 30,933 |
| 2012 | 17,677 |
| 2013 | 12,095 |
| 2014 | 9,730 |
| 2015 | 8,523 |
| 2016-2020 (present value $39,951 thousand) | 42,902 |
| 2021-2025 (present value $9,258 thousand) | 13,363 |
| | $ 135,223 |

As lessee, Chung Cin entered into lease agreement of land, buildings and improvements with non-related parties required Chung Cin to pay guarantee deposit of $12,383 thousand, which was recorded under "refundable deposits paid". A list of rent expense for the next 5 years and the present value of rentals from 2016 to 2025 as of December 31, 2010 are summarized as follows:

| Period | Amount |
|---|---|
| 2011 | $ 29,940 |
| 2012 | 30,395 |
| 2013 | 30,864 |
| 2014 | 32,085 |
| 2015 | 32,583 |
| 2016-2020 (present value $159,417 thousand) | 174,827 |
| 2021-2025 (present value $171,603 thousand) | 200,699 |
| | $ 531,393 |

As lessee, TR U.S. entered into sale-leaseback agreement of equipment, warehouse, and showroom facilities with non-related parties. A list of rent expense for future years as of December 31, 2010 is summarized as follows:

| Period | Amount |
|---|---|
| 2011 | $ 57,142 |
| 2012 | 57,709 |
| 2013 | 58,876 |
| 2014 | 61,807 |
| 2015 | 59,506 |
| 2016-2018 | 114,505 |
| | $ 409,545 |

TR U.S. entered into patent license agreement with non-related parties. A list of royalty expense for the next 4 years as of December 31, 2010 is summarized as follows:

| Period | Amount |
|---|---|
| 2011 | $ 8,510 |
| 2012 | 9,337 |
| 2013 | 3,546 |
| 2014 | 709 |
| | $ 22,102 |

Hola Shanghai Retail & Trading entered into lease agreement for office premises with non-related parties. A list of rent expense for the next 5 years and the present value of rentals from 2016 to 2028 as of December 31, 2010 are summarized as follows:

| Period | Amount |
|---|---|
| 2011 | $ 479,988 |
| 2012 | 515,685 |
| 2013 | 553,105 |
| 2014 | 587,108 |
| 2015 | 574,615 |
| 2016-2020 (present value $1,802,987 thousand) | 2,094,891 |
| 2021-2025 (present value $363,492 thousand) | 470,592 |
| 2026-2028 (present value $127,502 thousand) | 181,661 |
| | $ 5,457,645 |

Test-Rite Retail entered into lease agreement for office premises with non-related parties required Test-Rite Retail to pay guarantee deposit of $457,879 thousand, which was recorded under "refundable deposits paid". A list of rent expense for the next 5 years and the present value from 2016 to 2040 as of December 31, 2010 are summarized as follows:

| **Period** | **Amount** |
|---|---|
| 2011 | $ 909,024 |
| 2012 | 914,170 |
| 2013 | 883,475 |
| 2014 | 824,434 |
| 2015 | 834,619 |
| 2016-2020 (present value $2,267,391 thousand) | 2,398,947 |
| 2021-2025 (present value $1,202,255 thousand) | 1,272,050 |
| 2026-2030 (present value $166,586 thousand) | 176,256 |
| 2031-2035 (present value $95,359 thousand) | 100,895 |
| 2036-2040 (present value $43,645 thousand) | 46,179 |
| | $ 8,360,049 |

The information of significant foreign-currency financial assets and liabilities as of December 31, 2010 and 2009 are summarized as follows:

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

| | **2010** | | | **2009** | | |
|---|---|---|---|---|---|---|
| | **Foreign Currencies** | **Exchange Rate** | **New Taiwan Dollars** | **Foreign Currencies** | **Exchange Rate** | **New Taiwan Dollars** |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | $ 53,505 | 29.13 | $ 1,558,608 | $ 45,903 | 32.03 | $ 1,470,286 |
| EUR | 4,034 | 38.87 | 156,821 | 5,676 | 46.09 | 102,093 |
| GBP | 2,156 | 45.1091 | 97,248 | - | 51.7969 | - |
| RMB | 61,388 | 4.417 | 271,149 | 71,001 | 4.7198 | 335,111 |
| SGD | 3,097 | 22.6951 | 70,284 | 3,995 | 22.8689 | 91,354 |
| Nonmonetary items | | | | | | |
| USD | 225,000 | 29.13 | 6,554,250 | 220,000 | 32.03 | 7,046,603 |
| EUR | 500 | 38.87 | 19,435 | 2,853 | 46.09 | 131,495 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD | 89,197 | 29.13 | 2,598,318 | 42,109 | 32.03 | 1,348,745 |
| EUR | 3,261 | 38.87 | 126,758 | 4,078 | 46.09 | 187,949 |
| GBP | 1,134 | 45.1091 | 51,150 | - | 51.7969 | - |
| RMB | 350,548 | 4.417 | 1,548,370 | 394,469 | 4.7198 | 1,861,814 |
| Nonmonetary items | | | | | | |
| USD | 203,531 | 29.13 | 5,928,886 | 147,119 | 32.03 | 4,712,222 |
| RMB | 13,376 | 4.417 | 59,082 | - | 4.7198 | - |

## 34. SEGMENT INFORMATION

### Business Segments

Business segments as of and for the years ended December 31, 2010 and 2009 are summarized as follows:

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Segment | Trading Segment | Manufacturing Segment | Construction Segment | Reclassification and Elimination | Total |
| Net sales and operating revenues | | | | | | |
| External | $ 18,431,365 | $ 9,408,487 | $ 3,066,968 | $ 1,701,218 | $ - | $ 32,608,038 |
| Internal | - | 6,759,397 | - | 873,644 | (7,633,041) | - |
| | $ 18,431,365 | $ 16,167,884 | $ 3,066,968 | $ 2,574,862 | $ (7,633,041) | $ 32,608,038 |
| Operating profit | $ 661,861 | $ 344,883 | $ 255,591 | $ 178,431 | $ (386,358) | $ 1,054,408 |
| Investment loss | | | | | | 301 |
| Interest expenses | | | | | | (183,066) |
| Income before income tax (before distribution to minority interest) | | | | | | $ 871,643 |
| Identifiable assets | $ 9,746,669 | $17,110,086 | $ 2,776,816 | $ 1,756,056 | $ (8,427,942) | $ 22,961,685 |
| Long-term investments | | | | | | 209,665 |
| Total assets | | | | | | $ 23,171,350 |

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Retail Segment | Trading Segment | Manufacturing Segment | Construction Segment | Reclassification and Elimination | Total |
| Net sales and operating revenues | | | | | | |
| External | $ 15,749,675 | $ 10,026,813 | $ 2,358,875 | $ 912,287 | $ - | $ 29,047,650 |
| Internal | - | 5,313,177 | - | 238,796 | (5,551,973) | - |
| | $ 15,749,675 | $ 15,339,990 | $ 2,358,875 | $ 1,151,083 | $ (5,551,973) | $ 29,047,650 |
| Operating profit | $ 380,894 | $ 319,924 | $ 188,834 | $ 75,730 | $ (358,514) | $ 606,868 |
| Investment loss | | | | | | 3,077 |
| Interest expenses | | | | | | (222,847) |
| Income before income tax (before distribution to minority interest) | | | | | | $ 387,098 |
| Identifiable assets | $ 9,177,316 | $ 16,613,878 | $ 2,458,101 | $ 1,598,470 | $ (7,846,390) | $ 22,001,375 |
| Long-term investments | | | | | | 220,689 |
| Total assets | | | | | | $ 22,222,064 |

### Foreign Sales

Foreign sales for the years ended December 31, 2010 and 2009 are $20,268,727 thousand and $17,386,904 thousand, respectively. Details are summarized as follows:

| | 2010 | 2009 |
|---|---|---|
| North America | $ 11,530,169 | $ 9,856,537 |
| Europe | 2,542,846 | 2,567,099 |
| Others | 6,195,712 | 4,963,268 |
| | $ 20,268,727 | $ 17,386,904 |

## Geographical Segments

Geographical segment information as of and for the years ended December 31, 2010 and 2009 are summarized as follows:

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Worldwide | | | | Reclassification and | |
| | Taiwan | Asia | Europe | America | Others | Elimination | Total |
| Net sales and operating revenues | | | | | | | |
| External | $ 24,214,301 | $ 4,356,147 | $ 433,941 | $ 3,603,455 | $ 194 | $ - | $ 32,608,038 |
| Internal | 7,633,041 | - | - | - | - | (7,633,041) | - |
| | $ 31,847,342 | $ 4,356,147 | $ 433,941 | $ 3,603,455 | $ 194 | $ (7,633,041) | $ 32,608,038 |
| Operating profit (loss) | $ 1,732,716 | $ (425,824) | $ 27,379 | $ 115,711 | $ (9,216) | $ (386,358) | $ 1,054,408 |
| Investment loss | | | | | | | 301 |
| Interest expenses | | | | | | | (183,066) |
| Income before income tax (before distribution to minority interest) | | | | | | | $ 871,643 |
| Identifiable assets | $ 27,032,077 | $ 2,839,511 | $ 321,794 | $ 1,118,321 | $ 77,924 | $ (8,427,942) | $ 22,961,685 |
| Long-term investments | | | | | | | 209,665 |
| Total assets | | | | | | | $ 23,171,350 |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Worldwide | | | | Reclassification and | |
| | Taiwan | Asia | Europe | America | Others | Elimination | Total |
| Net sales and operating revenues | | | | | | | |
| External | $ 22,515,535 | $ 3,319,248 | $ 357,185 | $ 2,855,555 | $ 127 | $ - | $ 29,047,650 |
| Internal | 5,551,973 | - | - | - | - | (5,551,973) | - |
| | $ 28,067,508 | $ 3,319,248 | $ 357,185 | $ 2,855,555 | $ 127 | $ (5,551,973) | $ 29,047,650 |
| Operating profit (loss) | $ 1,456,391 | $ (555,404) | $ 23,319 | $ 50,765 | $ (9,689) | $ (358,514) | $ 606,868 |
| Investment loss | | | | | | | 3,077 |
| Interest expenses | | | | | | | (222,847) |
| Income before income tax (before distribution to minority interest) | | | | | | | $ 387,098 |
| Identifiable assets | $ 25,590,438 | $ 2,734,991 | $ 200,169 | $ 1,239,820 | $ 82,347 | $ (7,846,390) | $ 22,001,375 |
| Long-term investments | | | | | | | 220,689 |
| Total assets | | | | | | | $ 22,222,064 |