

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

**Consolidated Financial Statements for the
Years Ended December 31, 2008 and 2007 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, 2008 and 2007, 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

April 17, 2009

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, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

ASSETS	2008		2007		LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,263,656	5	\$ 3,428,233	14	Short-term bank borrowings (Note 19)	\$ 4,551,213	19	\$ 4,920,131	20
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	327,983	1	495,035	2	Short-term obligations (Note 20)	95,000	1	30,000	-
Available-for-sale financial assets, current (Notes 2 and 6)	6,017	-	11,242	-	Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	80,672	-	5,881	-
Held-to-maturity financial assets, current (Notes 2 and 14)	-	-	12,141	-	Notes payable	74,453	-	126,660	1
Financial assets carried at cost, current (Notes 2 and 7)	-	-	3,094	-	Accounts payable	2,578,341	11	3,149,756	13
Bond investments without active market, current (Note 16)	-	-	30,000	-	Income tax payable (Notes 2 and 30)	191,592	1	371,945	1
Notes receivable (Notes 2 and 8)	41,758	-	64,859	-	Other payables (Note 21)	1,334,544	6	1,233,990	5
Accounts receivable (Notes 2 and 8)	2,519,052	11	2,971,741	12	Advance receipt	252,131	1	301,625	1
Other receivables (Note 9)	1,113,447	5	940,992	4	Current portion of long-term liabilities (Note 23)	542,070	2	500,000	2
Other financial assets, current	101,422	-	5,232	-	Other current liabilities (Note 22)	417,498	2	454,035	2
Inventories (Notes 2 and 10)	3,889,197	17	4,186,262	17					
Prepayments	672,137	3	766,516	3	Total current liabilities	<u>10,117,514</u>	<u>43</u>	<u>11,094,023</u>	<u>45</u>
Other current assets	261,030	1	172,763	1					
Total current assets	<u>10,195,699</u>	<u>43</u>	<u>13,088,110</u>	<u>53</u>	LONG-TERM LIABILITIES				
LONG-TERM INVESTMENTS					Financial liabilities at fair value through profit or loss, noncurrent (Note 5)	18,445	-	-	-
Long-term equity investments at equity method (Note 11)	1	-	1	-	Long-term debt (Note 23)	4,946,872	21	2,800,000	12
Investments in real estate (Note 12)	14,478	-	14,579	-	Liability component of preferred stocks, noncurrent (Note 24)	308,175	2	-	-
Available-for-sale financial assets, noncurrent (Note 13)	33,926	-	149,340	-					
Held to maturity financial assets, noncurrent (Note 14)	7,397	-	7,397	-	Total long-term liabilities	<u>5,273,492</u>	<u>23</u>	<u>2,800,000</u>	<u>12</u>
Financial assets carried at cost, noncurrent (Note 15)	133,751	1	168,486	1					
Total long-term investments	<u>189,553</u>	<u>1</u>	<u>339,803</u>	<u>1</u>	ESTIMATED ACCRUED LAND VALUE INCREMENT TAX PAYABLE	<u>36,740</u>	<u>-</u>	<u>36,740</u>	<u>-</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 17)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 25)	225,562	1	181,342	1
Land	657,485	3	707,653	3	Deposits received	28,828	-	25,206	-
Buildings and improvements	1,283,875	6	1,150,660	5	Deferred credit (Note 17)	1,878,308	8	2,113,096	9
Machinery and equipment	1,427,008	6	1,480,171	6	Other liabilities - others	63,093	-	122,609	-
Transportation equipment	103,702	-	100,776	-					
Other equipment	7,036,486	30	6,867,692	28	Total other liabilities	<u>2,195,791</u>	<u>9</u>	<u>2,442,253</u>	<u>10</u>
Total cost	10,508,556	45	10,306,952	42	Total liabilities	<u>17,623,537</u>	<u>75</u>	<u>16,373,016</u>	<u>67</u>
Revaluation increments	104,515	-	104,515	-	EQUITY ATTRIBUTED TO STOCKHOLDERS OF THE PARENT				
Less accumulated depreciation	(4,674,311)	(20)	(4,434,386)	(18)	Capital stock (Note 26)	4,736,660	20	4,652,434	19
Prepayments for property, plant and equipment	438,738	2	393,151	2	Capital surplus				
Property, plant and equipment, net	<u>6,377,498</u>	<u>27</u>	<u>6,370,232</u>	<u>26</u>	Additional paid-in capital	520,130	2	520,130	2
INTANGIBLE ASSETS (Note 2)					Long-term investments	-	-	30,966	-
Patent	10	-	116	-	Retained earnings (Note 27)				
Computer software cost	17,193	-	10,545	-	Legal reserve	669,551	3	611,866	3
Goodwill	3,538,799	15	1,604,546	7	Unappropriated earnings	240,749	1	586,185	2
Deferred pension cost (Notes 2 and 25)	38,862	-	45,253	-	Other adjustments of stockholders' equity				
Total intangible assets	<u>3,594,864</u>	<u>15</u>	<u>1,660,460</u>	<u>7</u>	Cumulative translation adjustments	121,037	1	76,895	-
OTHER ASSETS (Notes 2 and 18)					Net loss not recognized as pension costs	(35,928)	-	(16,964)	-
Refundable deposits	835,111	4	788,055	3	Unrealized holding loss on available-for-sale financial asset	(9,385)	-	(13,107)	-
Deferred income tax assets, noncurrent (Note 32)	864,154	4	880,695	4	Treasury stock (Notes 2 and 28)	(897,297)	(4)	(337,716)	(1)
Other assets - others	1,478,146	6	1,424,392	6					
Total other assets	<u>3,177,411</u>	<u>14</u>	<u>3,093,142</u>	<u>13</u>					
TOTAL	<u>\$ 23,535,025</u>	<u>100</u>	<u>\$ 24,551,747</u>	<u>100</u>	MINORITY INTEREST	<u>565,971</u>	<u>2</u>	<u>2,068,042</u>	<u>8</u>
					Total stockholders' equity	<u>5,911,488</u>	<u>25</u>	<u>8,178,731</u>	<u>33</u>
					TOTAL	<u>\$ 23,535,025</u>	<u>100</u>	<u>\$ 24,551,747</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated April 17, 2009)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUES (Note 2)	\$ 32,732,587	100	\$ 36,568,037	100
OPERATING COST	<u>23,781,542</u>	<u>72</u>	<u>27,207,433</u>	<u>75</u>
GROSS PROFIT	8,951,045	28	9,360,604	25
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>8,415,071</u>	<u>26</u>	<u>8,411,987</u>	<u>23</u>
INCOME FROM OPERATIONS	<u>535,974</u>	<u>2</u>	<u>948,617</u>	<u>2</u>
NON-OPERATING INCOME				
Interest income	52,424	-	27,190	-
Investment income recognized under equity method (Notes 2 and 11)	81	-	43	-
Gain on disposal of property, plant and equipment (Note 17)	118,033	-	418,003	1
Gain on disposal of investments, net	5,423	-	118,418	-
Foreign exchange gain, net	142,900	1	76,039	-
Others	<u>140,221</u>	<u>-</u>	<u>136,159</u>	<u>1</u>
Total non-operating income	<u>459,082</u>	<u>1</u>	<u>775,852</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest expenses	415,133	1	444,697	1
Loss on disposal of property, plant and equipment	15,085	-	1,884	-
Interests on liability component of preferred stocks, noncurrent	3,251	-	-	-
Impairment loss (Note 15)	33,085	-	14,361	-
Loss on valuation of financial assets	5,788	-	-	-
Loss on valuation of financial liabilities	73,180	-	2,097	-
Loss on physical inventory	41,403	-	16,532	-
Others	<u>152,127</u>	<u>1</u>	<u>279,250</u>	<u>1</u>
Total non-operating expenses	<u>739,052</u>	<u>2</u>	<u>758,821</u>	<u>2</u>
INCOME BEFORE INCOME TAX	256,004	1	965,648	2
PROVISION FOR INCOME TAX (Notes 2 and 30)	<u>(76,099)</u>	<u>-</u>	<u>(93,856)</u>	<u>-</u>
TOTAL CONSOLIDATED NET INCOME	<u>\$ 179,905</u>	<u>1</u>	<u>\$ 871,792</u>	<u>2</u>
ATTRIBUTED TO				
Parent company's stockholders	\$ 285,113	1	\$ 576,847	1
Minority interest	<u>(105,208)</u>	<u>-</u>	<u>294,945</u>	<u>1</u>
	<u>\$ 179,905</u>	<u>1</u>	<u>\$ 871,792</u>	<u>2</u>

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 26)				
Basic earnings per share including minority interest	\$ 0.59	\$ 0.41	\$ 2.17	\$ 1.96
Basic earnings per share attributed to parent company's stockholders		\$ 0.65		\$ 1.30
DILUTED EARNINGS PER SHARE (Notes 2 and 26)				
Diluted earnings per share including minority interest	\$ 0.59	\$ 0.41	\$ -	\$ -
Diluted earnings per share attributed to parent company's stockholders		\$ 0.65		\$ -

(Concluded)

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

(With Deloitte & Touche audit report dated April 17, 2009)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	Capital Surplus				Retained Earnings		Other Adjustments of Stockholders' Equity					Total
	Capital Stock	Additional Paid-in Capital	Treasury Stock	Long-term Investments	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Costs	Unrealized Holding Loss on Available-for-Sale Financial Assets	Treasury Stock	Minority Interest	
BALANCE, JANUARY 1, 2007	\$ 4,488,130	\$ 519,609	\$ 35,041	\$ 45,997	\$ 569,337	\$ 524,756	\$ 22,338	\$ 16	\$ (782)	\$ (364,159)	\$ 2,265,140	\$ 8,105,423
Appropriation and distribution of 2006 net income (Note 26)												
Legal reserve	-	-	-	-	42,529	(42,529)	-	-	-	-	-	-
Cash bonuses to directors and supervisors	-	-	-	-	-	(7,655)	-	-	-	-	-	(7,655)
Stock bonuses to employees	30,550	-	-	-	-	(30,559)	-	-	-	-	-	(9)
Stock dividends	84,858	-	-	-	-	(84,858)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(339,432)	-	-	-	-	-	(339,432)
Effect of changes in percentage of ownership of long-term equity investments	-	-	-	(15,031)	-	-	-	-	-	-	15,031	-
Cumulative translation adjustments on long-term equity investments	-	-	-	-	-	-	54,557	-	-	-	-	54,557
Net loss not recognized as pension costs	-	-	-	-	-	-	-	(16,980)	-	-	(2,554)	(19,534)
Unrealized valuation loss of available-for-sale financial assets	-	-	-	-	-	-	-	-	(12,325)	-	(2,760)	(15,085)
Convertible bonds converted into common stock (Note 26)	48,896	521	-	-	-	-	-	-	-	-	-	49,417
Increase in treasury stock (Note 28)	-	-	-	-	-	-	-	-	-	(929,941)	(26,191)	(956,132)
Treasury stock transferred to employees (Note 28)	-	-	(35,041)	-	-	(10,385)	-	-	-	956,384	-	910,958
Minority interest	-	-	-	-	-	-	-	-	-	-	(475,569)	(475,569)
Total consolidated income for 2007	-	-	-	-	-	576,847	-	-	-	-	294,945	871,792
BALANCE, DECEMBER 31, 2007	4,652,434	520,130	-	30,966	611,866	586,185	76,895	(16,964)	(13,107)	(337,716)	2,068,042	8,178,731
Appropriation and distribution of 2007 net income (Note 26)												
Legal reserve	-	-	-	-	57,685	(57,685)	-	-	-	-	-	-
Cash bonuses to directors and supervisors	-	-	-	-	-	(10,383)	-	-	-	-	-	(10,383)
Stock bonuses to employees	41,530	-	-	-	-	(41,533)	-	-	-	-	-	(3)
Stock dividends	42,696	-	-	-	-	(42,696)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(426,963)	-	-	-	-	-	(426,963)
Effect of changes in percentage of ownership of long-term equity investments	-	-	-	(30,966)	-	(51,289)	-	-	-	-	82,255	-
Cumulative translation adjustments on long-term equity investments	-	-	-	-	-	-	44,142	-	-	-	(309)	43,833
Net loss not recognized as pension cost	-	-	-	-	-	-	-	(18,964)	-	-	(13,939)	(32,903)
Unrealized valuation gain of available-for-sale financial assets	-	-	-	-	-	-	-	-	3,722	-	(2,284)	1,438
Equity component of preferred stocks, noncurrent (Note 24)	-	-	-	-	-	-	-	-	-	-	25,690	25,690
Increase in treasury stock (Note 28)	-	-	-	-	-	-	-	-	-	(559,581)	-	(559,581)
Minority interest	-	-	-	-	-	-	-	-	-	-	(1,488,276)	(1,488,276)
Total consolidated income for 2008	-	-	-	-	-	285,113	-	-	-	-	(105,208)	179,905
BALANCE, DECEMBER 31, 2008	\$ 4,736,660	\$ 520,130	\$ -	\$ -	\$ 669,551	\$ 240,749	\$ 121,037	\$ (35,928)	\$ (9,385)	\$ (897,297)	\$ 565,971	\$ 5,911,488

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

(With Deloitte & Touche audit report dated April 17, 2009)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Total consolidated net income	\$ 179,905	\$ 871,792
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization for long-term debt	2,242	3,169
Depreciation and amortization	792,010	875,276
Interests on liability component of preferred stocks, noncurrent	3,251	-
Loss (gain) on financial assets valuation	5,788	(15,102)
Loss on financial liabilities valuation	73,180	31,559
Provision for (recovery from) inventory devaluation	41,403	16,532
Investment income recognized under equity method	(81)	(43)
Loss (gain) on disposal of available-for-sale financial assets, noncurrent	7,052	(6,706)
Impairment loss	33,085	12,050
Net gain on disposal of property, plant and equipment	(102,948)	(416,119)
Amortization for the unrealized gain on sale-leaseback	(234,788)	-
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	161,264	146,546
Available-for-sale financial assets, current	11,242	(1,825)
Held-to-maturity financial assets, current	36,124	(12,141)
Financial assets carried at cost, current	3,094	231
Notes receivable	23,101	(15,074)
Accounts receivable	452,689	(947,759)
Other receivables	(172,455)	(10,512)
Other financial assets, current	(76,195)	(2,193)
Inventories	255,662	37,929
Prepayments	94,379	127,477
Deferred income tax assets, current	(9,556)	44,375
Other current assets	(78,711)	(2,298)
Deferred income tax assets, noncurrent	16,541	(331,803)
Other assets	(219,945)	(52,147)
Financial liabilities at fair value through profit or loss, current	(17,775)	(8,314)
Notes payable	(52,207)	8,627
Accounts payable	(571,415)	(111,506)
Income tax payable	(180,353)	60,713
Other payables	93,878	363,827
Advance receipt	(49,494)	94,176
Other current liabilities	(36,537)	(124,370)
Financial liabilities at fair value through profit or loss, noncurrent	18,445	-
Interest expense compensation payable	-	877
Other liabilities	(41,505)	44,641
Net cash provided by operating activities	<u>460,370</u>	<u>681,885</u>

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TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in financing deposit	\$ (19,995)	\$ 12,007
Decrease in futures deposits	-	219
Disposal of long-term equity investments	-	42,893
Decrease in prepayment for long-term investments	-	15,808
Decrease (increase) in available-for-sale financial assets	109,901	(89,719)
Proceeds from decreased in capital stock of financial assets carried at cost	2,267	-
Decrease in holding to maturity financial assets, noncurrent	-	14,064
Increase in financial assets carried at cost, noncurrent	(617)	(40)
Acquisition of property, plant and equipment	(977,985)	(2,367,812)
Proceeds from disposal of property, plant and equipment	1,007,995	4,155,111
Increase in goodwill	(1,934,253)	(197,237)
Increase in refundable deposits	(47,056)	(59,543)
Increase in deferred charges	<u>(71,354)</u>	<u>(323,359)</u>
Net cash (used in) provided by investing activities	<u>(1,931,097)</u>	<u>1,202,392</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term bank borrowings	(368,918)	879,672
Increase (decrease) in short-term obligations	65,000	(30,000)
Increase in long-term debt	2,188,942	263,600
Increase (decrease) in deposits received	3,622	(550)
Redemption of series A preferred stocks	(490,904)	-
Payment for issuance costs of series B preferred stocks	350,000	-
Increase in treasury stock	(559,581)	(956,132)
Treasury stock transferred to employees	-	910,958
Cash bonus to directors, supervisors and employees	(10,383)	(7,655)
Payment of cash dividends	(426,963)	(339,432)
Decrease in minority interest	<u>(1,488,276)</u>	<u>(475,569)</u>
Net cash (used in) provided by financing activities	<u>(737,461)</u>	<u>244,892</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>43,611</u>	<u>54,540</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,164,577)	2,183,709
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,428,233</u>	<u>1,244,524</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,263,656</u>	<u>\$ 3,428,233</u>

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TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

	2008	2007
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest	<u>\$ 399,392</u>	<u>\$ 305,817</u>
Income tax	<u>\$ 256,861</u>	<u>\$ 370,334</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Effect on changes in percentage of ownership interest of equity method investees	<u>\$ (82,255)</u>	<u>\$ (15,031)</u>
Translation adjustments on long-term equity investments	<u>\$ 222</u>	<u>\$ 17</u>
Transfer of long-term equity investments to deferred credits	<u>\$ 123</u>	<u>\$ (43)</u>
Convertible bonds converted into common stock	<u>\$ -</u>	<u>\$ 49,417</u>
Current portion of long-term liabilities	<u>\$ 542,070</u>	<u>\$ 500,000</u>
Bonuses to employees	<u>\$ 3</u>	<u>\$ 9</u>
Unrealized holding gain (loss) on available-for-sale financial assets	<u>\$ 3,722</u>	<u>\$ (12,325)</u>
Net loss not recognized as pension costs	<u>\$ (18,964)</u>	<u>\$ (16,980)</u>
CASH PAID DURING THE YEAR FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment acquired	\$ 984,658	\$ 2,381,197
Add liabilities for acquisition of property, plant and equipment at the beginning of year	59,224	45,839
Deduct liabilities for acquisition of property, plant and equipment at the end of year	<u>(65,897)</u>	<u>(59,224)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 977,985</u>	<u>\$ 2,367,812</u>
CASH RECEIVED DURING THE YEAR FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		
Proceeds from disposal of property, plant and equipment	\$ 349,201	\$ 5,501,405
Add receivable from disposal of property, plant and equipment, noncurrent at beginning of year	658,794	-
Deduct receivable from disposal of property, plant and equipment (current) at the end of year	-	(687,500)
Deduct receivable from disposal of property, plant and equipment (noncurrent) at the end of year	<u>-</u>	<u>(658,794)</u>
Cash received during the year from disposal of property, plant and equipment	<u>\$ 1,007,995</u>	<u>\$ 4,155,111</u>
		(Concluded)

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

(With Deloitte & Touche audit report dated April 17, 2009)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Information of Parent Company

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

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

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

Information of Subsidiaries

Subsidiaries	Relationship with Parent Company	Main Business	Effective Holding (%)	Reasons for not Including in the Consolidated Financial Statement in 2008 and 2007
Fortune Miles Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Fortune Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Star Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Investment (B.V.I.) Co., Ltd.	Directly held 100.00%	Investment in various industries	100.00	Included
Test-Rite Retailing Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
B&S Link Co., Ltd. (Cayman)	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Trading Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
TRS Investment Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Included
Test-Rite Pte Ltd.	Directly held 100.00%	Importation and exportation	100.00	Included
Test-Rite Product (Hong Kong) Ltd.	Directly held 100.00%	Importation and exportation	100.00	Included
Test-Rite Int’l (Australia) Pty Ltd.	Directly held 100.00%	Importation and exportation	100.00	Included
Test-Rite Development Co., Ltd.	Directly held 95.93%	Investment holding company	95.93	Included
Test-Rite Int’l (U.S.) Co., Ltd.	Directly held 49.00% and controllable investee	Importation and exportation	49.00	Included
Test-Rite Int’l (Thailand) Ltd.	Directly held 48.99% and controllable investee	Importation and exportation	48.99	Included
Lih Chiou Co., Ltd.	Directly held 100.00%	International trade	100.00	Included
Lih Teh International Co., Ltd.	Directly held 100.00%	Integrating data and providing information	100.00	Included
B&S Link Co., Ltd.	Directly held 100.00%	Providing information software and electronic information	100.00	Included
Fusion International Distribution, Inc.	Directly held 100.00%	Importation and exportation	100.00	Included
Chung Cin Enterprise Co., Ltd.	Directly held 100.00%	Authorized builder to build dwelling, rental and sale of building	100.00	Included

Subsidiaries	Relationship with Parent Company	Main Business	Effective Holding (%)	Reasons for not Including in the Consolidated Financial Statement in 2008 and 2007
Test-Rite B&Q Co., Ltd.	Directly and indirectly held 100.00%	Sale of house decoration hardware and construction materials	100.00	Included
Tong Lung Metal Industry Co., Ltd.	Directly and indirectly held 66.11%	The manufacture and sale of (1) various advanced lock, building metals parts and processed plastic goods (2) molding and tool machines and (3) import and export business related to the aforementioned products.	66.11	Included
Hola Homefurnishings Co., Ltd.	Directly and indirectly held 65.00%	Importation and exportation, department store, supermarket and restaurant	65.00	Included
Test-Rite Quickbuy Co., Ltd.	Lih Teh International held 100%	Sale of articles for daily use	100.00	Included
Coalue Consultant Co., Ltd.	Lih The International held 80.00%	Consultant of business operation	80.00	Included
Tony Construction Co., Ltd.	Chung Chin Enterprise held 100.00%	Build and civil engineering	100.00	Included
Test Cin M&E Engineering Co., Ltd.	Chung Chin Enterprise held 100.00%	Mechanical and electronic engineering	100.00	Included
Chung Cin Interior Design Construction Co., Ltd.	Chung Chin Enterprise held 100.00%	Interior design	100.00	Included
Tony Investment Co., Ltd.	Tony Construction held 100.00%	Investment in various industries	100.00	Included
B&Q Indoor Decoration & Renovation Co., Ltd.	Test-Rite B&Q held 100.00%	Interior design	100.00	Included
Lucky International (SAMOA) Ltd.	Tong Lung Metal Industry held 100%	Investment	66.11	Included
Goodwill Trading Ltd.	Tong Lung Metal Industry held 100%	Investment	66.11	Included
Instant Luck International Ltd.	Tong Lung Metal Industry held 100%	Investment	66.11	Liquidated in July 2008
Freer Inc.	Hola Homefurnishings held 100.00%	Sale of bedclothes	65.00	Included
Homy Homefurnishings Co., Ltd.	Hola Homefurnishings held 100.00%	Sale of bedclothes	65.00	Included
U2 Industry Design Co., Ltd.	Directly held 64.00%	Design new product	64.00	Sold in March 2008
Homy Homefurnishings (Shanghai) Ltd.	Homy Homefurnishings held 100.00%	Sale of bedclothes	65.00	Sold in March 2008

As of December 31, 2008 and 2007, Test-Rite and subsidiaries (collectively, the “Company”) have 6,826 and 6,842 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 (SFB, formerly the “Securities and Futures Commission” before July 1, 2004) for their oversight purposes.

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

Principle of Consolidation

The accompanying consolidated financial statements include the accounts of Test-Rite and its subsidiaries (see Note 1). All significant intercompany balances and transactions have been eliminated upon consolidation. For the information of subsidiaries and reasons for not including in consolidated financial statements in 2008 and 2007, please see Note 1.

- (a) The information of subsidiaries not included in the consolidated financial statements for 2008 and 2007: 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 is the published fair value per unit at the balance sheet date. The fair value of financial instruments that do not have a quoted market price in an active market is estimated by valuation method.

Allowance for Doubtful Accounts

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

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

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

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

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

Long-Term Equity Investments at Equity Method

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

When equity method of accounting is used, the difference between acquisition cost and equity in net assets on the acquisition date is amortized over a five-year period. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards, the excess of the cost of the investment over the fair value of identifiable net assets, representing goodwill, is no longer amortized.

Additionally, effective January 1, 2006, the unamortized balance of the cost of the investment in excess of the underlying equity in net assets of the investee generated previously is not amortized as goodwill and the unamortized balance of the underlying equity in net assets of the investee in excess of the cost of the investment generated previously is amortized during the remaining period as deferred credits.

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

additional paid-in capital account and the balance of additional paid-in capital from long-term equity investments is not enough to be offset, retained earnings will be debited for the remaining amount.

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

Investment in Real Estate

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

Available-for-Sale Financial Assets

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

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

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

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

Held-to-Maturity Financial Assets

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

Financial Assets Carried at Cost

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

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

Bond Investments without Active Market

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

Property, Plant and Equipment

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

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

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

Buildings and improvements	3~60 years
Machinery and equipment	2~20 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	3~10 years
Leasehold improvements	3~20 years
Molds and tools	2~3 years
Other equipment	3~17 years

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

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

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

Assets Leased to Others

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

Impairment of Assets

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

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment.

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

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

Intangible Assets

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

Deferred Charges

Deferred charges are amortized on the straight-line method over 2 to 5 years.

Allowance for Indemnity Losses on Export

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

Convertible Preferred Stocks

Convertible preferred stocks issued after January 1, 2006 should be accounted for in accordance with Statement of Financial Accounting Standards No. 36, “Financial Instruments: Disclosure and Measurement.” Embedded derivatives, such as conversion option and put option with economic characteristics and risks that are not closely related to the economic characteristics and risks of the host contract are separated from the host contract. Conversion option, giving stockholders contractual right to receive a fixed number of the Company’s common stock for a fixed stated principal amount of the preferred stocks, is initially recognized at fair value as “capital surplus - conversion option.” Put option is initially recognized as “financial liabilities at fair value through profit or loss.” When fair

value is subsequently measured, the changes in fair value are recognized in current income. The carrying value of host contract is measured at amortized cost using the effective interest rate method and recognized as “liability component of preferred stock;” the related interest expense is recognized as current income.

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

If the preferred stockholders can exercise put option within one 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.

Foreign Currency Transactions

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

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

Cumulative Translation Adjustments

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

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

Treasury Stock

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

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

Income Tax

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

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

Earnings Per Share

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

Sales, Sales Returns and Allowances

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

Non-Derivative Financial Instruments

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

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGE

Accounting for Bonuses to Employees, Directors and Supervisors

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

Accounting for Share-based Payment

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 39, "Accounting for Share-based Payment". The adoption of newly released SFAS caused no effect on the net income and earnings per share after tax.

Accounting for Intangible Assets

Effective January 1, 2007, the Company adopted the newly released SFAS No. 37 "Intangible Assets," and other related accounting standards which were amended to be in agreement with the new standards. The adoption of newly released SFAS caused no effect on the net income and earnings per share after tax.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Petty cash	\$ 35,573	\$ 38,204
Checking deposits	6,284	691,277
Savings deposits	423,679	1,944,037
Foreign currency deposits	764,833	584,902
Time certificates of deposit	33,287	70,229
Cash equivalents	-	99,584
	<u>\$ 1,263,656</u>	<u>\$ 3,428,233</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Financial assets held for trading		
Equity securities marketable on Taiwan Stock Exchange and in the over-the-counter market	\$ 33,902	\$ 29,717
Open-end funds	258,435	439,603
Corporate bonds mutual funds	6,447	14,042
Offshore mutual funds	3,681	4,987
Receivable on forward contracts, net	156	43
Receivable on short selling stock	22,544	474
Real estate funds	2,818	3,001
Structured note	-	3,168
	<u>\$ 327,983</u>	<u>\$ 495,035</u>
Financial liabilities held for trading - current		
Payable on forward contracts, net	\$ 58,128	\$ 5,407
Payable on short selling stock	22,544	474
	<u>\$ 80,672</u>	<u>\$ 5,881</u>
Financial liabilities held for trading - noncurrent		
Put option on convertible preferred stock (Note 24)	<u>\$ 18,445</u>	<u>\$ -</u>

As of December 31, 2008 and 2007, short selling in the investment amounted to \$22,544 thousand and \$474 thousand was included in financial liabilities at fair value through profit or loss, current. The deposits for short selling amounted to \$20,384 thousand and \$429 thousand were included in financing deposits under other financial assets, current.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

Available-for-sale financial assets, current as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Equity securities marketable on Taiwan Stock Exchange and in the over-the-counter market	\$ 884	\$ 1,779
Benefit certificate of domestic funds	<u>5,133</u>	<u>4,014</u>
	6,017	5,793
Unrealized holding gain on available-for-sale financial assets (Note 2)	<u>-</u>	<u>5,449</u>
	<u>\$ 6,017</u>	<u>\$ 11,242</u>

7. FINANCIAL ASSETS CARRIED AT COST, CURRENT

Financial assets carried at cost, current as of December 31, 2008 and 2007 consist of the following:

	2008	2007
The funds without active market	\$ <u> -</u>	\$ <u> 3,094</u>

The investments mentioned do not have open pricing or reliable fair value. Thus they are carried at cost.

8. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Non-affiliates		
Notes receivable	\$ <u> 41,758</u>	\$ <u> 64,859</u>
Accounts receivable	2,521,138	2,979,512
Less allowance for doubtful accounts	<u> (2,086)</u>	<u> (7,771)</u>
	<u> 2,519,052</u>	<u> 2,971,741</u>
	<u>\$ 2,560,810</u>	<u>\$ 3,036,600</u>

TR Products Corp. (“TR Products”) and Master Design Inc. (“MDI”), the subsidiaries of Test-Rite Int’l (U.S.) Co., Ltd., have entered into a factoring agreement with a commercial factor. Under the terms of the agreement, credit risk is transferred to the factor on accounts sold and assigned to the factor. However, factor may charge back MDI and TR Products for any accounts not paid in full when due for any reason other than credit risk.

Test-Rite concluded an accounts receivable factoring agreement with a 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.

As of December 31, 2008 and 2007, the accounts receivable factoring is summarized as follows:

Object	Interest Rate	2008			
		Amount of Accounts Receivable Factoring (In Thousands)	Advance from Factor (In Thousands)	Net Amount Due from Factor (In Thousands)	Collateral
CIT Group & UPS	JP Morgan basic loan rate minus 0.25% or 3% annually	US\$11,772 (Approximately \$386,828 thousand)	US\$9,529 (Approximately \$313,123 thousand)	US\$2,243 (Approximately \$73,705 thousand)	US\$ -

2007					
Object	Interest Rate	Amount of Accounts Receivable Factoring (In Thousands)	Advance from Factor (In Thousands)	Net Amount Due from Factor (In Thousands)	Collateral
Shanghai Commercial & Saving Bank, Ltd.	Basic loan rate plus 0.4% divided by 94.45%	US\$2,543 (Approximately \$82,502 thousand)	US\$1,703 (Approximately \$55,251 thousand)	US\$840 (Approximately \$27,251 thousand)	Promissory note US\$13,000 (Approximately \$421,742 thousand)
CIT Group & UPS	JP Morgan basic loan rate minus 0.25% or 3% annually	US\$12,370 (Approximately \$401,320 thousand)	US\$11,349 (Approximately \$368,196 thousand)	US\$1,022 (Approximately \$33,154 thousand)	-

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

Test-Rite Int'l (U.S.) concluded accounts receivable financing agreements with banks. The agreements declared that Test-Rite Int'l (U.S.) should be responsible for the credit risk of accounts receivable not being collected. As of December 31, 2008 and 2007, accounts receivable of \$55,287 thousand and \$64,231 thousand were pledged to secure short-term bank borrowing (see Notes 19 and 32).

Test-Rite Development concluded accounts receivable financing agreements with a bank. The agreements declared that Test-Rite Development should be responsible for the risk of accounts receivable not being collected. As of December 31, 2008, accounts receivable of \$23,095 thousand were pledged to secure short-term bank borrowing (see Notes 19 and 32).

9. OTHER RECEIVABLES

Other receivables as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Value-added tax refunds receivable	\$ 31,354	\$ 5,504
Receivable from disposal of investment	-	16,795
Advances for related parties (see Note 31)	5,096	4,529
Commissions receivable	7,705	7,344
Retention for sales of accounts receivable (see Note 8)	2,243	60,405
Receivables from disposal of property, plant and equipment, current (see Note 17)	676,325	687,500
Others	<u>390,724</u>	<u>158,915</u>
	<u>\$ 1,113,447</u>	<u>\$ 940,992</u>

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

10. INVENTORIES

Inventories as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Merchandise - retail sale	\$ 2,692,436	\$ 2,238,585
Merchandise - trade	704,707	1,115,473
Raw materials	410,734	605,896
Work-in-process	115,919	233,960
Finished goods	15,622	91,177
Merchandise - manufacturing	6,958	23,046
Construction in progress	<u>62,659</u>	<u>183,792</u>
	4,009,035	4,491,929
Less valuation allowance	<u>(119,838)</u>	<u>(305,667)</u>
	<u>\$ 3,889,197</u>	<u>\$ 4,186,262</u>

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

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

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

Construction in progress is Chung Cin's inventories.

11. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

Long-term equity investments at equity method as of December 31, 2008 and 2007 consist of the following:

	2008			2007	
	Original Accumulated Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
At equity method					
Test-Rite Int'l (Mexico) Ltd.	\$ 245	\$ 1	49.00	\$ 1	49.00

Equities in earnings of TR Mexico for the years ended December 31, 2008 and 2007 are summarized as follows:

	2008	2007
TR Mexico	<u>\$ 81</u>	<u>\$ 43</u>

TR Mexico is engaged in importation and exportation.

12. INVESTMENTS IN REAL ESTATE

	2008	2007
Land	\$ 10,228	\$ 10,228
Buildings and improvement	<u>5,633</u>	<u>5,634</u>
	15,861	15,862
Accumulated depreciation	<u>(1,383)</u>	<u>(1,283)</u>
	<u>\$ 14,478</u>	<u>\$ 14,579</u>

Real estate investment of Lih Teh has been rented to third parties. The rental income for the years ended December 31, 2008 and 2007 amounted to \$883 thousand and \$857 thousand which was reported as other revenue.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

	2008	2007
Deposit funds of real estate	\$ 30,000	\$ 30,000
Equity securities on Taiwan Stock Exchange	15,526	137,057
Unrealized holding loss on available-for-sale financial assets	<u>(11,600)</u>	<u>(17,717)</u>
	<u>\$ 33,926</u>	<u>\$ 149,340</u>

14. HELD-TO-MATURITY FINANCIAL ASSETS, NONCURRENT

	2008	2007
Core Pacific - Yamaichi I	\$ -	\$ 12,141
Core Pacific - Yamaichi II	4,097	4,097
CMS Interest Principal Guaranteed Notes	<u>3,300</u>	<u>3,300</u>
	7,397	19,538
Less current portion of held to maturity financial assets	<u>-</u>	<u>(12,141)</u>
	<u>\$ 7,397</u>	<u>\$ 7,397</u>

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

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

CMS Interest Principal Guaranteed Notes were issued with terms from December 6, 2004 to December 6, 2019 with a face value of US\$100 thousand. The interest rate is 10% for the first two years and is fluctuated from the third year. Interest is paid quarterly.

15. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

	2008			2007	
	Original Accumulated Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Hwa Jan International Co., Ltd. (Samoa)	\$ 9,849	\$ 9,989	19.00	\$ 9,863	19.00
Grandcathy Venture Capital Co., Ltd.	40,000	40,000	5.00	40,000	5.00
NCTU Springl Technology Capital Co., Ltd.	10,036	10,832	4.69	12,036	4.69
Emit Technology Co., Ltd.	10,842	10,842	4.58	10,842	4.58
Yuan Chuang Co., Ltd.	2,407	2,407	1.00	2,674	1.67
Highlight Optoelectronics Inc.	3,713	3,713	0.88	3,713	0.88
Techgains Pan-Pacific Co., Ltd.	19,191	19,329	0.81	19,204	0.81
Quartz Frequency Technology Co., Ltd.	750	750	-	750	0.43
Taiwan Finance Co., Ltd.	2,120	2,120	-	2,120	0.04
Nucom International Co., Ltd.	64,400	27,400	1.57	27,400	2.00
Hong Da Electronic Co., Ltd.	2,000	-	0.72	1,185	1.00
China Semiconductor Co., Ltd.	767	546	0.99	546	1.00
Yieh United Steel Co., Ltd.	3,920	3,920	0.02	3,920	-
Shanghai Commercial & Saving Bank, Ltd.	1,903	1,903	-	1,903	-
TEPRO	430	-	-	430	-
TB Commerce Network Co., Ltd.	<u>31,900</u>	<u>-</u>	10.59	<u>31,900</u>	10.59
	<u>\$ 204,228</u>	<u>\$ 133,751</u>		<u>\$ 168,486</u>	

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

As of December 31, 2008, Test Rite recognized impairment loss of \$31,900 thousand on TB Commerce Network Co., Ltd.

As of December 31, 2008 and 2007, Tong Lung Metal recognized impairment loss of \$1,185 thousand and \$12,010 thousand based on its invested companies operating performance.

16. BOND INVESTMENTS WITH NO ACTIVE MARKET, NONCURRENT

	2008		2007
	Original Accumulated Cost	Carrying Value	Carrying Value
Beneficiary certificates of Credit Lyonnais, Paris	\$ -	\$ -	\$ 30,000
Less current portion of bond investments with no active market		<u>-</u>	<u>(30,000)</u>
		<u>\$ -</u>	<u>\$ -</u>

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

17. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2008 and 2007 consist of the following:

	2008			2007	
	Original Cost	Revaluation Increments	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 657,485	\$ 104,515	\$ -	\$ 762,000	\$ 812,227
Buildings and improvements	1,283,875	-	280,556	1,003,319	849,292
Machinery and equipment	1,427,008	-	1,263,832	163,176	106,556
Transportation equipment	103,702	-	58,410	45,292	42,450
Furniture, fixtures and office equipment	947,463	-	398,091	549,372	451,679
Leasehold improvements	5,138,599	-	2,164,423	2,974,176	3,100,624
Molds and tools	33,746	-	16,900	16,846	20,898
Other equipment	916,678	-	492,099	424,579	593,355
Construction in progress and prepayments for property, plant and equipment	438,738	-	-	438,738	393,151
	<u>\$10,947,294</u>	<u>\$ 104,515</u>	<u>\$ 4,674,311</u>	<u>\$ 6,377,498</u>	<u>\$ 6,370,232</u>

Test-Rite: As of December 31, 2008 and 2007, the cost of the leased-out land was \$267,519 thousand and \$267,519 thousand and the carrying value of leased-out buildings and improvements was \$262,544 thousand and \$271,806 thousand, respectively.

Tong Lung: As of December 31, 2007, the cost of the leased-out land was \$49,235 thousand and the carrying value of leased-out building and improvements was \$66,109 thousand.

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

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

On July 19, 2007, Test-Rite paid \$1,788,880 thousand to purchase land from non-affiliates for the purpose of integrating the group's resources. The transaction was completed by July 31, 2007. On December 21, 2007, Test-Rite sold a real property and leased it back immediately in consideration of business strategies. The profit from this transaction was \$2,762,217 thousand. Based on generally accepted accounting principles, the profit from the sale and leaseback is required to be deferred and recognized evenly during the lease term. As of December 31, 2007, Test-Rite recorded \$2,347,885 thousand unrealized gain. Based on the liquidity of the unrealized gain, \$234,789 thousand is recorded under other current liability and \$2,113,096 thousand is recorded under other liabilities - deferred credit. In 2008, the amortization for the unrealized gain is \$234,788 thousand, which is treated as a reduction of rental cost and rental expense. As of December 31, 2008, the unrealized gain is \$2,113,097 thousand: \$234,789 thousand is recorded under other current liability and \$1,878,308 thousand is recorded under other liabilities - deferred credit (See Note 22). In addition, as of December 31, 2008, the uncollected proceeds of \$676,325 thousand, which have been reduced by unreceived interest revenue of \$11,175 thousand, were recorded under other receivables (see Note 9).

As of December 31, 2008 and 2007, the carrying value of property, plant and equipment pledged to secure long-term debt and provided as collaterals to bank was as follows (see Notes 19, 23 and 32):

	2008	2007
Land	\$ 208,875	\$ 208,875
Buildings and improvements	<u>168,700</u>	<u>60,743</u>
	<u>\$ 377,575</u>	<u>\$ 269,618</u>

18. OTHER ASSETS

Other assets as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Deferred tax asset, noncurrent (see Note 30)	\$ 864,154	\$ 880,695
Refundable deposits	835,111	788,055
Deferred charges (see Note 2)	353,863	324,049
Others	<u>1,124,283</u>	<u>1,100,343</u>
	<u>\$ 3,177,411</u>	<u>\$ 3,093,142</u>

19. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings as of December 31, 2008 and 2007 consist of the following:

	2008		2007	
	<u>Interest Rate %</u>	<u>Amount</u>	<u>Interest Rate %</u>	<u>Amount</u>
Unsecured loans	1.90~7.00	\$ 4,279,292	2.60~6.17	\$ 4,641,601
Secured loans	1.90~2.30	228,382	2.15~5.20	244,231
Loans payable	0.25~1.00	<u>43,539</u>	5.50~5.70	<u>34,299</u>
		<u>\$ 4,551,213</u>		<u>\$ 4,920,131</u>

As of December 31, 2008, the amount of \$55,287 thousand was secured by the accounts receivable of TR Int'l (U.S.) Co., Ltd.. The amount of \$23,095 was secured by the accounts receivable of TR Development Co., Ltd. and \$150,000 thousand was secured by the land and buildings and improvements of Tong Lung Metal Industry Co., Ltd. (see Notes 8 and 32).

As of December 31, 2007, the amount of \$64,231 thousand was secured by the accounts receivable of TR Int'l (U.S.) Co., Ltd. and \$180,000 thousand was secured by the land and buildings and improvements of Tong Lung Metal Industry Co., Ltd. (see Notes 8 and 32).

20. SHORT-TERM OBLIGATIONS

Short-term obligations as of December 31, 2008 and 2007 consist of the following:

	2008		2007	
	Interest Rate %	Amount	Interest Rate %	Amount
Commercial paper, unsecured	2.952~2.966	<u>\$ 95,000</u>	2.578	<u>\$ 30,000</u>

21. OTHER PAYABLES

Other payables as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Accrued expenses	\$ 877,853	\$ 939,696
Interest payable	15,965	6,919
Other notes payable	32,001	10,910
Payables for purchase of property, plant and equipment	65,897	59,224
Others	<u>342,828</u>	<u>217,241</u>
	<u>\$ 1,334,544</u>	<u>\$ 1,233,990</u>

22. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2008 and 2007 consist of the following:

	2008	2007
Receipts under custody	\$ 20,371	\$ 14,871
Accrued VAT payable	14,231	14,093
Allowance for indemnity losses on exports (see Note 2)	1,444	3,028
Unrealized gain on sale-leaseback (Note 17)	234,789	234,789
Others	<u>146,663</u>	<u>187,254</u>
	<u>\$ 417,498</u>	<u>\$ 454,035</u>

23. LONG-TERM DEBT

Long-term debt as of December 31, 2008 and 2007 consists of the following:

	2008		2007	
	Interest Rate	Amount	Interest Rate	Amount
Taishin International Bank				
Unsecured loan from June 25, 2008 to December 31, 2009. Interest is paid monthly, principal due on December 31, 2009.	3.75	\$ 200,000	\$	-
Unsecured loan from December 8, 2005 to November 26, 2007. Interest is paid monthly, principal due on November 26, 2007.	-	-	-	200,000

	2008		2007
	Interest Rate	Amount	Amount
Chang Hwa Bank			
Unsecured loan from May 19, 2008 to May 19, 2011. Interest is paid monthly, principal due on quarterly installment.	2.04	333,333	-
Ta Chong Bank			
Unsecured loan from May 16, 2008 to November 30, 2012. Interest is paid monthly, principal due on November 30, 2012.	2.96	600,000	-
Bank SinoPac Co., Ltd.			
Unsecured loan from January 2, 2008 to January 2, 2011. Interest is paid monthly, principal due on January 2, 2011.	3.043	500,000	-
Shanghai Commercial & Savings Bank			
Unsecured loan from December 17, 2007 to December 17, 2011, the first installment on December 17, 2009 and principal due in quarterly installments. Interest is paid monthly.	2.725	200,000	200,000
Land Bank's Syndicate Loan			
Unsecured loan from July 26, 2007 to July 25, 2012. Interest is paid monthly, principal due on July 25, 2012. Interest rate is current interest rate plus 0.6%	3.0126	3,000,000	1,500,000
Yuanta Bank			
Pledged loan from December 11, 2008 to December 11, 2011. Interest is paid monthly, principal due on quarterly installment.	3.75	600,000	-
Shanghai Commercial & Savings Bank			
Unsecured loan from February 1, 2008 to March 1, 2010. From the day of the first borrowing, principal is due every month for 25 times. Interest is paid monthly.	2.75	2,800	-
First Sino Bank			
Unsecured loan from June 24, 2008 to June 23, 2013. Interest is paid monthly. Principal is paid evenly every month for 50 times after the day of the first borrowing.	6.732	52,809	-
Ta Chong Bank			
Unsecured loan from September 29, 2007 to September 29, 2010. In May 2008, the Company paid the principal in full in advance.	-	-	600,000
Calyon Bank			
Unsecured loan from September 29, 2003 to September 29, 2008, principal due on September 29, 2008. In May 2008, the Company paid the principal in full in advance.	-	-	500,000
Hong Kong and Shanghai Banking Co., Ltd.			
Pledged loan from December 27, 2006 to September 27, 2011, the first installment on September 25, 2007 and the Company paid 10% in 2007, 15% in 2008, 20% in 2009, 25% in 2010, and 30% in 2011. Interest is paid monthly. In June 2008, the Company paid principal in full in advance.	-	-	300,000

	<u>2008</u>	<u>2007</u>
	Interest Rate	Amount
		Amount
		5,488,942
Less current portion		(542,070)
		3,300,000
		(500,000)
		<u>\$4,946,872</u>
		<u>\$2,800,000</u>

As of December 31, 2008, 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 sales leaseback of office premises divided by tangible assets.)
- b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- c. The calculations of the ratios are based on the Test-Rite financial statements for the years ended December 31.

Land Bank's Syndicate Loan

- a. Leverage Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Tangible Net Worth of not more than 2 to 1. (Total liabilities are total liabilities on the balance sheet plus credit guarantees and minus the unrealized gain on sales leaseback of office premises.)
- b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- c. EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.
- d. Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than \$5,200,000 thousand.
- e. The calculations of the ratios are based on the Test-Rite financial statements for the years ended December 31.

Ta Chong Bank

- a. Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1.
- b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- c. EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.
- d. Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than \$5,200,000 thousand.

- e. The calculations of the ratios are based on the Test-Rite financial statements for the years 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 sales leaseback.)
- b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- c. EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.
- d. Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than \$5,200,000 thousand.
- e. The calculations of the ratios are based on the Test-Rite financial statements for the years ended December 31.

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

- a. Lih Chiou needs to examine if it maintains \$120,000 thousand in its time certificates of deposits every three months. If Lih Chiou does not meet the condition, the interest of the loan will be increased to a fixed interest rate of 4.25% until the next time when the time certificates of deposits are examined.
- b. Test-Rite B&Q has to transfer cash dividends distributed every year to the bank account of Yuanta Bank.

See Note 32 for collaterals on bank borrowings.

See Note 31 for guarantees on bank borrowings.

24. LIABILITY COMPONENT OF PREFERRED STOCKS - NONCURRENT

	2008	2007
Private placement of liability component of series B preferred stocks	<u>\$ 308,175</u>	<u>\$ -</u>

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.

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. As of December 31, 2008, 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, 2008, embedded derivatives which are measured at fair value amounted to \$18,445 thousand; liabilities which do not belong to derivatives financial instruments amounted to \$308,175 thousand. As of the balance sheet date, none of the preferred stockholders requested to convert their preferred stocks into common stocks.

25. 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, B&Q, Tong Lung, Hola, Tony Construction, Test Cin M&E, Chung Cin Interior Design, Freer and B&Q Indoor Decoration & Renovation 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 B&Q and Freer, which contribute 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 (the Central Trust of China merged with the Bank of Taiwan in 2007, with the Bank of Taiwan as the survivor entity) in the committee's name.

	2008	2007
Service cost	\$ 18,819	\$ 21,433
Interest cost	19,010	16,770
Actual return on plan assets	(3,681)	(234)
Expected return on plan assets	(8,963)	(11,196)
Amortization of net transition asset	8,591	(243)
Vested past service cost	(326)	11,126
Amortization of pension loss	<u>3,589</u>	<u>21,744</u>
	<u>\$ 37,039</u>	<u>\$ 59,400</u>

The following table sets forth the actuarial assumptions and plan's status as of December 31, 2008 and 2007:

	2008	2007
Weighted-average discount rate	2.50%~3.00%	2.70%~3.00%
Expected rate of return on plan assets	2.50%~3.00%	2.75%~3.00%
Assumed rate of increase in salary	1.00%~4.00%	1.50%~5.00%

	2008	2007
Actuarial present value of benefit obligation		
Vested benefits	\$(161,967)	\$ (264,368)
Nonvested benefits	<u>(368,973)</u>	<u>(336,329)</u>
Accumulated benefit obligation	(530,940)	(600,697)
Additional benefits at future salaries	<u>(136,186)</u>	<u>(115,093)</u>
Projected benefit obligation	(667,126)	(715,790)
Plan assets at fair value	<u>398,893</u>	<u>444,724</u>
Projected benefit obligation in excess of plan assets	(268,233)	(271,066)
Net transition asset not yet recognized	(3,174)	28,088
Net pension loss not yet recognized	148,568	32,230
Additional pension liability	16,618	100,318
Accrued pension cost	<u>(66,190)</u>	<u>(14,648)</u>
	(172,411)	(125,078)
Prepaid pension cost assets (included in other assets)	(14,289)	(11,011)
Deferred pension cost	<u>(38,862)</u>	<u>(45,253)</u>
Accrued pension liability (included in other liabilities)	<u>\$ (225,562)</u>	<u>\$ (181,342)</u>

26. CAPITAL STOCK

Test-Rite's capital stock as of December 31, 2008 and 2007 consists of the following:

	2008	2007
Registered capital		
Share (thousand shares)	<u>660,000</u>	<u>660,000</u>
Par value (in dollars)	<u>10</u>	<u>10</u>
Capital	<u>\$ 6,600,000</u>	<u>\$ 6,600,000</u>
Issued capital		
Share (thousand shares)	<u>473,666</u>	<u>465,243</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 4,736,660</u>	<u>\$ 4,652,434</u>

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

Test-Rite's outstanding capital stock as of January 1, 2007, amounted to \$4,488,130 thousand. For the year ended December 31, 2007, Test-Rite's bondholders have converted bonds amounting to \$43,600 thousand into 4,889,602 common shares amounting to \$48,896 thousand. Transferred from the 2006 retained earnings to capital stock were bonuses to employees of \$30,550 thousand, and stock dividends of \$84,858 thousand, or total of \$115,408 thousand. Consequently, as of December 31, 2007, Test-Rite's capital stock was

increased to \$4,652,434 thousand consisting of 465,243,433 outstanding common shares having a par value of \$10 dollars each.

In their June 13, 2007 and June 9, 2006 meetings, the stockholders decided to distribute retained earnings as follows:

	Distributions of Earnings		Dividends Per Share (In Dollars)	
	2007	2006	2007	2006
Legal reserve	\$ 57,685	\$ 42,529	\$ -	\$ -
Cash dividends	426,963	339,432	1.00	0.80
Stock dividends	42,696	84,858	0.10	0.20
Bonuses to employees - stock	41,530	30,550	-	-
Bonuses to employees - cash	3	9	-	-
Bonuses to director and supervisors - cash	10,383	7,655	-	-

For the years ended December 31, 2008 and 2007, the amounts of earnings per share were calculated as follows:

	2008						
	Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax	Shares (Denominator)	Income Before Tax Include Minority	Income After Tax Include Minority	Parent Co. Stockholders Income After Tax
Basic earnings per share							
Net income to stockholders of common stock	\$ 256,004	\$ 179,905	\$ 285,113	436,504,567	<u>\$ 0.59</u>	<u>\$ 0.41</u>	<u>\$ 0.65</u>
The effects of dilutive potential ordinary shares							
Bonus to employees	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,258,278</u>			
Diluted earnings per share							
Net income to stockholders of common stock and the effects of potential ordinary shares (including effect of dilutive potential ordinary stock)	<u>\$ 256,004</u>	<u>\$ 179,905</u>	<u>\$ 285,113</u>	<u>437,762,845</u>	<u>\$ 0.59</u>	<u>\$ 0.41</u>	<u>\$ 0.65</u>

There are two assumptions made to calculate the effects of dilutive potential ordinary shares - bonus to employees. First, the bonus to employees was assumed as distributed in the form of stock. Second, the stock market value on December 31, 2008, instead of par value, was used to determine the number of shares increased.

	2007						
	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	<u>\$ 965,648</u>	<u>\$ 871,972</u>	<u>\$ 576,847</u>	<u>445,125,547</u>	<u>\$ 2.17</u>	<u>\$ 1.96</u>	<u>\$ 1.30</u>

Earnings per share for the year ended December 31, 2007 was based upon the weighted average number of common shares outstanding during the year after giving retroactive effects to the stock dividends declared in 2008.

As of December 31, 2008, the 2008 retained earnings proposition has not yet been approved by the stockholders' meeting. Regarding previous retained earnings proposition by the board of directors and the approval of the stockholders' meeting, please refer to the Market Observation Post System ("MOPS") of the Taiwan Stock Exchange.

Test-Rite's board of directors and stockholders have proposed and approved the distribution from 2007 earnings of \$41,530 thousand as stock bonuses to employees (represents 0.95% of the outstanding common share at the year end of 2007) and of \$10,383 thousand as bonuses to directors and supervisors. In 2007, the amount of earnings per share after income tax (before retroactive adjustment for stock dividends in 2007) was \$1.32 dollars. However, if the earnings distribution to employees, directors, and supervisors was accounted for as expenses, the pro-forma earnings per share after income tax would be \$1.20 dollars.

27. 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.

28. TREASURY STOCK

The changes of treasury stock for the years ended December 31, 2008 and 2007 are summarized as follows (in shares):

Reason	2008.1.1	Increase	Decrease	2008.12.31
Buy the stock back to transfer to employees	<u>17,185,000</u>	<u>30,095,000</u>	-	<u>47,280,000</u>
Reason	2007.1.1	Increase	Decrease	2007.12.31
Buy the stock back to transfer to employees	<u>20,000,000</u>	<u>47,185,000</u>	<u>50,000,000</u>	<u>17,185,000</u>

As of December 31, 2008, the treasury stock of Test-Rite was \$897,297 thousand.

As of December 31, 2007, the treasury stock of Test-Rite was \$337,716 thousand.

During 2007, Test-Rite transferred 50,000,000 shares of treasury stock to employees with a total of \$910,958 thousand. The difference between the total amount collected from employees and the book value of the treasury stocks transferred to employees, \$956,384 thousand, resulted in reduction of capital surplus of \$35,041 thousand and retained earnings of \$10,385 thousand.

According to the Stock Exchange Law of ROC, the shares of treasury stock should not be over 10% of the Company's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The highest number of shares of treasury stock that holding company held as of December 31, 2008 and 2007 was 47,280,000 and 44,800,000 shares and the total amount was \$897,297 thousand and \$337,716 thousand pursuant to the law.

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

29. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2008 and 2007 are summarized as follows:

Expense Item \ Function	2008			2007		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary	\$ 333,756	\$2,709,352	\$3,043,108	\$ 393,552	\$2,657,269	\$3,050,821
Labor/health insurance	20,184	181,948	202,132	28,997	174,407	203,404
Pension	23,164	129,819	152,983	26,254	124,887	151,141
Other	30,433	351,002	381,435	47,198	315,498	362,696
Depreciation	102,519	628,620	731,139	155,750	610,985	766,735
Amortization	12,221	48,650	60,871	38,045	70,496	108,541

30. INCOME TAX

The components of income tax expense for the year ended December 31, 2008 are as follows:

Tax expenses from entities generating net income	\$ 241,241
Tax credits from entities generating net loss	(142,606)
Estimated 10% income tax on 2006 undistributed earnings	12,476
Deferred tax asset adjustment and change in adjustment of valuation allowance	(25,294)
Adjustment of prior years' tax expenses	<u>(9,718)</u>
Income tax expense	<u>\$ 76,099</u>

The tax effects of deductible temporary differences that gave rise to deferred tax assets as of December 31, 2008 are as follows:

Losses carryforward	\$ 29,648
Investment loss recognized under equity method	556,988
Others	<u>359,703</u>
	946,339
Less valuation allowance	<u>(28,924)</u>
Net deferred tax assets	917,415
Less deferred tax assets, noncurrent	<u>(864,154)</u>
Deferred tax assets, current	<u>\$ 53,261</u>

Income tax expense at statutory rate	\$ 335,456
Decrease in tax resulting from others	<u>(94,215)</u>
Current tax expense	241,241
Provision for deferred income tax assets	
Others	<u>(8,016)</u>
Income tax payable	233,225
Add estimated 10% income tax on 2007 undistributed earnings	12,476
Less prepayments and withholdings in 2008	(129,308)
Add income tax payable for the prior years	<u>75,199</u>
Income tax payable as of December 31, 2008	<u><u>\$ 191,592</u></u>

The reported prepaid income tax and withholdings of \$36,618 thousand as of December 31, 2008 were the 2008 and prior year's income tax prepayments.

Losses carryforward as of December 31, 2008 for income tax purposes are as follows:

Year Expired	Amount
2013	\$ 3,100
2015	200
2018	<u>26,348</u>
	<u><u>\$ 29,648</u></u>

The information of Test-Rite about Imputation Credit ("IC") on the undistributed earnings as of December 31, 2006 and 2007 was summarized as follows:

IC on undistributed earnings as of December 31, 2008	<u>\$ 131,471</u>
Undistributed earnings in years from 1998 and after	<u>\$ 240,749</u>
Actual IC ratio on distributed earnings of 2007	33.33%
Expected IC ratio on distributed earnings of 2008	33.33%

The calculation of the expected IC ratio on distributed earnings of 2008 includes estimated income tax expense of 2008.

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

31. 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	Chairman of parent company
Judy Lee	Parent company's managing director
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, 2008 and 2007 is summarized below:

	<u>2008</u>		<u>2007</u>	
	Amount	%	Amount	%
Others	\$ 201	-	\$ 201	-

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

Service Income

Service income from related parties for the years ended December 31, 2008 and 2007 is summarized below:

	<u>2008</u>		<u>2007</u>	
	Amount	%	Amount	%
Others	\$ 914	5	\$ 916	4

Selling, General and Administrative Expenses - Commission Expenses

Commission expenses to related parties for the years ended December 31, 2008 and 2007 are summarized below:

	<u>2008</u>		<u>2007</u>	
	Amount	%	Amount	%
TR Mexico	\$ 28,950	10	\$ 30,985	6

Due from Related Parties

Due from related parties as of December 31, 2008 and 2007 is summarized below:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Advances for related parties				
TR Mexico	<u>\$ 5,096</u>	<u>100</u>	<u>\$ 4,529</u>	<u>100</u>

Due to Related Parties

Due to related parties as of December 31, 2008 and 2007 is summarized below:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Accrued commission expenses				
TR Mexico	<u>\$ 1,261</u>	<u>3</u>	<u>\$ 2,882</u>	<u>5</u>

Payment of Credit Guarantees

As of December 31, 2008, long-term debt of \$1,500,000 thousand was guaranteed by Tony Ho and Judy Lee. Long-term debt of \$3,333,333 thousand was guaranteed by Tony Ho.

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

As of December 31, 2007, short-term bank borrowings of \$1,287,926 thousand were guaranteed by Tony Ho, Judy Lee and Joyce Sun.

Compensation of Directors, Supervisors and Management Personnel

	<u>Years Ended December 31</u>	
	<u>2008</u>	<u>2007</u>
Salaries	\$ 94,431	\$ 51,477
Incentives	9,746	5,677
Special compensation	-	-
Bonuses	<u>18,211</u>	<u>40,708</u>
	<u>\$ 122,388</u>	<u>\$ 97,862</u>

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by shareholders in their annual meeting held in 2008. Please refer to annual report to stockholders for more details. Compensation of 2008 stated above includes estimated bonuses for directors, supervisors and management personnel for 2009.

32. PLEDGED ASSETS

Assets pledged for various purposes as of December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Accounts receivable (see Note 8)	\$ 55,287	\$ 64,231
Time deposits	181,318	33,488
Long-term investments in equity-method investee	4,014,494	382,529
Land (see Note 17)	208,875	208,875
Buildings and improvements (see Note 17)	<u>168,700</u>	<u>60,743</u>
	<u>\$4,628,674</u>	<u>\$ 749,866</u>

As of December 31, 2008, Test Rite B&Q had 65,000,000 of its shares pledged as collateral for Lih Chiou to raise a loan at Yuanta Bank. The face value of these shares was \$4,014,494 thousand (See Note 23).

As of December 31, 2007, Tong Tung had 9,126,000 of its shares pledged as collateral for Test Rite to raise a loan at HSBC. The shares have face value of \$382,529 thousand and market value of \$480,940 thousand. In June 2008, Test Rite had paid off the loan to HSBC in advance and Tong Lung's shares were no longer pledged (See Note 23).

33. COMMITMENTS AND CONTINGENCIES

Letter of Credit

Test-Rite's outstanding letters of credit not reflected in the accompanying financial statements as of December 31, 2008 and 2007 are US\$3,654 thousand and US\$1,176 thousand.

Tong Lung's outstanding funding letters of credit for purchases of raw material and equipment amounted to approximately \$8,666 thousand. Tong Lung has materials ordered but not yet received of approximately \$7,524 thousand.

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

As of December 31, 2008, Tong Lung has refundable deposits in banks of \$65,142 thousand in order to purchase raw material.

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

Litigation

As of June 30, 2007, Tong Lung has a significant in-process litigation named Chen Shu Yuan Stockholder Case. Chen Shu Yuan and the rest of 3,800 stockholders brought a lawsuit against Tong Lung due to their investment loss suffered from subscription to Tong Lung's

capital increase in cash in 1997. These stockholders claimed for indemnity of NT\$1.1 billion but was suspended immediately when Tong Lung was approved for reorganization. As soon as Tong Lung completed the reorganization, Taiwan High Court adjudicated and rejected the claim. The stockholders further appealed to the Supreme Court but according to the lawyer who stands for Tong Lung, the right to appeal is beyond the determined period in law. Tong Lung therefore did not record any of such contingent payable.

34. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Nominal Amount and Credit Risk

The forward exchange contract as of December 31, 2008 and 2007 is summarized below:

Financial Instruments	Type	2008		2007	
		Nominal Amount	Credit Risk	Nominal Amount	Credit Risk
Non-trading purpose					
Forward exchange	Sale	US\$ 290,550	-	US\$ 43,011	-
	Sale	EUR€ 4,000	-	EUR€ 5,000	-
	Buy	US\$ 194,040	-	US\$ 436	-
	Buy	EUR€ 2,863	-	EUR€ 10	-
Trading purpose					
Forward exchange	-	US\$ -	-	US\$ 3,000	-

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.

Reporting of Derivative Instruments in the Financial Statements

Foreign exchange gains of the Company from derivative financial instruments for the years ended December 31, 2008 and 2007 amounted to \$86,319 thousand and \$71,388 thousand, which were reported as non-operating income - exchange gains.

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments as of December 31, 2008 and 2007 is summarized as follows:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 1,263,656	\$ 1,263,656	\$ 3,428,233	\$ 3,428,233
Financial assets at fair value through profit or loss, current	327,827	327,827	494,992	494,992
Available-for-sale financial assets, current	6,017	6,017	11,242	11,242
Held to maturity financial assets, current	-	-	12,141	12,141
Financial assets carried at cost, current	-	-	3,094	3,094
Bond investment without active market, current	-	-	30,000	30,000
Notes receivable	41,758	41,758	64,859	64,859
Accounts receivable	2,519,052	2,519,052	2,971,741	2,971,741
Other receivable	1,113,447	1,113,447	940,992	940,992
Other current financial assets	101,422	101,422	5,232	5,232
Long-term equity investments at equity method	1	1	1	1
Available-for-sale financial assets, noncurrent	33,926	33,926	149,340	149,340
Held-to-maturity financial assets, noncurrent	7,397	7,397	7,397	7,397
Financial assets carried at cost, noncurrent	133,751	133,751	168,486	168,486
Refundable deposits	835,111	835,111	788,055	788,055
Liabilities				
Short-term bank borrowings	4,551,213	4,551,213	4,920,131	4,920,131
Short-term obligations	95,000	95,000	30,000	30,000
Financial liabilities at fair value through profit or loss, current	22,544	22,544	474	474
Notes payable	74,453	74,453	126,660	126,660
Accounts payable	2,578,341	2,578,341	3,149,756	3,149,756
Other payable	1,334,544	1,334,544	1,233,990	1,233,990
Current portion of long-term liabilities	542,070	542,070	500,000	500,000
Other current financial liabilities	1,444	1,444	3,028	3,028
Long-term liabilities	4,946,872	4,946,872	2,800,000	2,800,000
Other financial liabilities	28,828	28,828	25,206	25,206

The fair value of derivative financial instruments as of December 31, 2008 and 2007 is summarized as follows:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Buy forward exchange asset	\$ 126,081	\$ 126,081	\$ 31	\$ 31
Sell forward exchange liability	(184,053)	(184,053)	(5,395)	(5,395)
Put option on convertible preferred stock	(18,445)	(18,445)	-	-

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

- 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 obligations, notes payable, accounts payable, and other financial instruments, etc.
- 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.
- Long-term debt is stated at discount value.
- 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	\$ 327,827	\$ 156	\$ 327,983
Available-for-sale financial assets, current	6,017	-	6,017
Liabilities			
Financial liabilities at fair value through profit or loss, current	22,544	58,128	80,672
Financial liabilities at fair value through profit or loss, noncurrent	-	18,445	18,445

35. OPERATING LEASE

The sale-leaseback agreement of the land, buildings and improvements which Test-Rite entered into with non-affiliates is summarized as follows:

A list of rent expense that will incur each year in the future 5 years and the present value of rentals from 2014 to 2017 as of December 31, 2008:

Period	Amount
2009	\$ 257,500
2010	265,225
2011	273,182
2012	281,377
2013	289,818
2014~2017 (present value \$367,068 thousand)	<u>1,248,867</u>
	<u>\$2,615,969</u>

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

A list of rent revenue that will incur each year in the future 5 years and the present value of rentals from 2014 to 2026 as of December 31, 2008:

Period	Amount
2009	\$ 32,106
2010	30,180
2011	25,473
2012	20,725
2013	16,637
2014~2018 (present value \$34,085 thousand)	39,334
2019~2023 (present value \$10,625 thousand)	15,323
2024~2026 (present value \$2,503 thousand)	<u>4,021</u>
	<u>\$183,799</u>

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

A list of rent expense that will incur each year in the future 5 years and the present value of rentals from 2014 to 2025 as of December 31, 2008:

Period	Amount
2009	\$ 28,366
2010	28,795
2011	29,940
2012	29,940
2013	30,864
2014~2018 (present value \$152,382 thousand)	167,102
2019~2023 (present value \$160,380 thousand)	187,558
2024~2025 (present value \$55,292 thousand)	<u>67,669</u>
	<u>\$570,234</u>

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

A list of rent expense that will incur each year in the future 5 years as of December 31, 2008:

Period	Amount
2009	\$ 99,118
2010	79,671
2011	64,696
2012	47,800
2013	8,387
2014	<u>2,097</u>
	<u>\$ 301,769</u>

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

A list of royalty expense that will incur each year in the future 5 years as of December 31, 2008:

Period	Amount
2009	\$ 6,782
2010	3,154
2011	6,308
2012	<u>6,308</u>
	<u>\$ 22,552</u>

The lease agreement for office premises which Hola entered into with non-affiliates is summarized as follows:

A list of rent expenses that will incur year in the future 5 years and the present value of rentals from 2014 to 2026 as of December 31, 2008:

Period	Amount
2009	\$ 102,244
2010	102,803
2011	97,627
2012	92,245
2013	92,772
2014~2018 (present value \$368,041 thousand)	402,330
2019~2023 (present value \$258,769 thousand)	302,720
2024~2025 (present value \$48,722 thousand)	<u>58,509</u>
	<u>\$ 1,251,250</u>

The lease agreement for office premises which TR Retailing entered into is summarized as follows:

A list of rent expense that will incur each year in the future 5 years and the present value of rentals from 2014 to 2024 as of December 31, 2008:

Period	Amount
2009	\$ 229,877
2010	242,529
2011	248,415
2012	255,030
2013	263,760
2014~2019 (present value \$1,141,526 thousand)	1,300,885
2020~2024 (present value \$219,499 thousand)	<u>288,187</u>
	<u>\$ 2,828,683</u>

The lease agreement for office premises which Test-Rite B&Q entered into is summarized as follows:

A list of rent expense that will incur each year in the future 5 years and the present value from 2014 to 2028 as of December 31, 2008:

Period	Amount
2009	\$ 696,079
2010	721,542
2011	745,114
2012	769,903
2013	703,639
2014~2018 (present value \$2,142,786 thousand)	2,473,311
2019~2023 (present value \$1,140,522 thousand)	1,396,234
2024~2028 (present value \$85,567 thousand)	<u>111,066</u>
	<u>\$ 7,616,888</u>