

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

**Consolidated Financial Statements for the
Years Ended December 31, 2005 and 2004 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, 2005 and 2004, 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. The financial statements of Test-Rite Pte Ltd. ("TR Singapore") and Test-Rite Development Co., Ltd. ("TR Development") and the equity-method investees in 2004 were audited by other auditors. Our opinion, insofar as it relates to the amounts included for TR Singapore and TR Development and the equity-method investees in 2004, is based solely on the reports of such other auditors. The accompanying consolidated financial statements included assets of TR Singapore and TR Development that amounted to \$996,944 thousand constituting 8.77% of the consolidated total assets as of December 31, 2004 and their income before income tax of \$25,650 thousand for the year then ended. Also included were long-term investments in equity-method investees that amounted to \$1,318,375 thousand constituting 11.60% of the consolidated total assets as of December 31, 2004 and equity in earnings of such investees of \$211,485 thousand constituting 20.50% of the consolidated income before income tax for the year then ended.

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 statements presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, 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 and accounting principles generally accepted in the Republic of China.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2005, the Company adopted SFAS No. 7, "Consolidated Financial Statements", and included all controlled subsidiaries in the consolidated financial statements. In 2004, the consolidated financial statements included the accounts of investees which are more than 50% directly and indirectly owned by the parent company and whose total assets or total sales reached at least 3% of those of the parent company.

March 17, 2006

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, 2005 AND 2004

(In Thousands of New Taiwan Dollars)

ASSETS	2005		2004		LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,522,517	9	\$ 762,813	7	Short-term bank borrowings (Note 13)	\$ 3,433,147	20	\$ 635,337	6
Short-term investment (Notes 2 and 5)	663,517	4	925,051	8	Short-term obligations (Note 14)	30,000	-	20,000	-
Notes receivable (Notes 2 and 6)	47,958	-	48,489	-	Notes payable	111,110	1	102,291	1
Notes receivable from affiliates (Notes 2, 6 and 27)	20	-	10,897	-	Accounts payable	2,641,078	15	1,283,861	11
Accounts receivable (Notes 2 and 6)	1,897,592	11	1,299,109	12	Income tax payable (Notes 2 and 25)	198,554	1	195,784	2
Accounts receivable from affiliates (Notes 2, 6 and 27)	26	-	1,364,727	12	Other payables (Note 15)	1,184,069	7	593,292	5
Other receivables (Notes 7 and 27)	387,819	2	242,960	2	Advance receipt	218,811	1	288,968	3
Other financial assets, current (Note 8)	244,377	1	132,594	1	Current portion of long-term liabilities (Note 16)	595,707	3	70,833	1
Inventories (Notes 2 and 9)	3,854,362	22	1,028,009	9	Other current liabilities (Note 17)	210,070	1	56,613	-
Prepayments	1,016,587	6	329,127	3					
Other current assets	247,726	2	154,622	1	Total current liabilities	8,622,546	49	3,246,979	29
Total current assets	9,882,501	57	6,298,398	55	LONG-TERM LIABILITIES				
LONG-TERM INVESTMENTS (Notes 2 and 10)	250,584	1	2,214,188	20	Bonds payable (Notes 2 and 18)	-	-	641,716	6
OTHER FINANCIAL ASSETS, NONCURRENT	811,861	5	344,372	3	Long-term debt (Note 19)	1,716,400	10	1,182,233	10
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)					Total long-term liabilities	1,716,400	10	1,823,949	16
Cost					OTHER LIABILITIES				
Land	773,813	5	520,656	5	Pension liabilities (Notes 2 and 20)	22,671	-	6,052	-
Buildings and improvements	1,614,847	9	1,497,548	13	Customers deposits	41,037	-	60,117	1
Transportation equipment	61,710	-	33,569	-	Others	104,973	1	381,696	3
Other equipment	5,956,998	34	804,496	7	Total other liabilities	168,681	1	447,865	4
	8,407,368	48	2,856,269	25	Total liabilities	10,507,627	60	5,518,793	49
Less accumulated depreciation	(2,749,723)	(16)	(921,614)	(8)	PARENT COMPANY STOCKHOLDERS' EQUITY				
Prepayments for property, plant and equipment	332,393	2	268,625	2	Capital stock (Note 21)	4,167,176	24	3,973,113	35
Property, plant and equipment, net	5,990,038	34	2,203,280	19	Capital surplus				
OTHER ASSETS (Notes 2 and 12)	558,496	3	308,522	3	Additional paid-in capital	514,635	3	494,007	5
					Treasury stock	10,741	-	10,703	-
					Retained earnings (Note 22)				
					Legal reserve	496,587	3	413,748	4
					Unappropriated earnings	895,100	5	1,065,199	9
					Cumulative translation adjustments (Note 2)	24,570	-	23,624	-
					Treasury stock (Notes 2 and 23)	(546,510)	(3)	(546,510)	(5)
					Total stockholders' equity of parent company	5,562,299	32	5,433,884	48
					MINORITY INTEREST				
						1,423,554	8	416,083	3
					Total stockholders' equity	6,985,853	40	5,849,967	51
TOTAL	\$17,493,480	100	\$11,368,760	100	TOTAL	\$17,493,480	100	\$11,368,760	100

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

(With Deloitte & Touche audit report dated March 17, 2006)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
OPERATING REVENUES (Note 2)	\$34,478,139	100	\$21,345,886	100
OPERATING COST	25,925,555	75	17,486,524	82
UNREALIZED INTERCOMPANY PROFIT	<u>-</u>	<u>-</u>	<u>(23,340)</u>	<u>-</u>
GROSS PROFIT	8,552,584	25	3,836,022	18
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>7,250,523</u>	<u>21</u>	<u>3,078,869</u>	<u>14</u>
INCOME FROM OPERATIONS	<u>1,302,061</u>	<u>4</u>	<u>757,153</u>	<u>4</u>
NON-OPERATING INCOME				
Interest income	28,707	-	21,337	-
Equity in net earnings of affiliates (Notes 2 and 10)	4,364	-	91,762	-
Gain on disposal of property, plant and equipment	5,768	-	2,990	-
Net gain on sale of investments	93,625	1	68,035	-
Exchange gains, net	64,929	-	163,616	1
Recovery of provision for inventory devaluation	-	-	8,829	-
Others	<u>304,684</u>	<u>1</u>	<u>179,165</u>	<u>1</u>
Total non-operating income	<u>502,077</u>	<u>2</u>	<u>535,734</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest expenses	306,670	1	151,480	1
Investment loss (Note 26)	77,160	-	34,485	-
Loss on disposal of property, plant and equipment	3,578	-	1,746	-
Loss from inventory devaluation	83,288	1	-	-
Others	<u>78,674</u>	<u>-</u>	<u>73,510</u>	<u>-</u>
Total non-operating expenses	<u>549,370</u>	<u>2</u>	<u>261,221</u>	<u>1</u>
INCOME BEFORE INCOME TAX	1,254,768	4	1,031,666	5
PROVISION FOR INCOME TAX (Notes 2 and 25)	<u>(313,534)</u>	<u>(1)</u>	<u>(143,310)</u>	<u>(1)</u>
TOTAL CONSOLIDATED NET INCOME	<u>\$ 941,234</u>	<u>3</u>	<u>\$ 888,356</u>	<u>4</u>
ATTRIBUTED TO				
Parent company's stockholders	\$ 727,497	2	\$ 831,975	4
Minority interest of subsidiaries	<u>213,737</u>	<u>1</u>	<u>56,381</u>	<u>-</u>
	<u>\$ 941,234</u>	<u>3</u>	<u>\$ 888,356</u>	<u>4</u>

(Continued)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 21)				
Earnings per share including minority interest	<u>\$ 3.28</u>	<u>\$ 2.46</u>	<u>\$ 2.70</u>	<u>\$ 2.33</u>
Earnings per share for parent company stockholders		<u>\$ 1.90</u>		<u>\$ 2.18</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 21)				
Earnings per share including minority interest	<u>\$ 3.20</u>	<u>\$ 2.40</u>	<u>\$ 2.62</u>	<u>\$ 2.26</u>
Earnings per share for parent company stockholders		<u>\$ 1.86</u>		<u>\$ 2.11</u>

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

(With Deloitte & Touche audit report dated March 17, 2006)

(Concluded)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)**

	Capital Surplus			Retained Earnings		Cumulative Translation Adjustments	Treasury Stock	Minority Interest	Total
	Capital Stock	Additional Paid-in Capital	Treasury Stock	Legal Reserve	Unappropriated Earnings				
BALANCE, JANUARY 1, 2004	\$3,707,386	\$398,482	\$ 10,692	\$395,542	\$ 496,110	\$ 15,480	\$ (161,052)	\$ 299,601	\$5,162,241
Appropriation and distribution of 2003 net income (Note 21)									
Legal reserve	-	-	-	18,206	(18,206)	-	-	-	-
Cash bonuses to directors and supervisors	-	-	-	-	(3,277)	-	-	-	(3,277)
Stock bonuses to employees	13,108	-	-	-	(13,108)	-	-	-	-
Stock dividends	37,451	-	-	-	(37,451)	-	-	-	-
Cash dividends	-	-	-	-	(187,255)	-	-	-	(187,255)
Effect of changes of ownership interests in equity method investees	-	-	-	-	(3,589)	-	-	-	(3,589)
Translation adjustments on long-term equity investments	-	-	-	-	-	8,144	-	-	8,144
Convertible bonds converted into common stock (Note 21)	215,168	95,525	-	-	-	-	-	-	310,693
Treasury stock (Note 23)	-	-	-	-	-	-	(385,458)	-	(385,458)
Cash dividends of intercompany stockholding	-	-	11	-	-	-	-	-	11
Minority interest	-	-	-	-	-	-	-	60,101	60,101
Total consolidated income for 2004	-	-	-	-	831,975	-	-	56,381	888,356
BALANCE, DECEMBER 31, 2004	3,973,113	494,007	10,703	413,748	1,065,199	23,624	(546,510)	416,083	5,849,967
Appropriation and distribution of 2004 net income (Note 21)									
Legal reserve	-	-	-	82,839	(82,839)	-	-	-	-
Cash bonuses to directors and supervisors	-	-	-	-	(14,911)	-	-	-	(14,911)
Stock bonuses to employees	59,640	-	-	-	(59,644)	-	-	-	(4)
Stock dividends	73,589	-	-	-	(73,589)	-	-	-	-
Cash dividends	-	-	-	-	(662,304)	-	-	-	(662,304)
Effect of changes of ownership interests in equity method investees	-	-	-	-	(4,309)	-	-	-	(4,309)
Translation adjustments on long-term equity investments	-	-	-	-	-	946	-	-	946
Convertible bonds converted into common stock (Note 21)	60,834	20,628	-	-	-	-	-	-	81,462
Cash dividends of intercompany stockholding	-	-	38	-	-	-	-	-	38
Minority interest	-	-	-	-	-	-	-	793,734	793,734
Total consolidated income for 2005	-	-	-	-	727,497	-	-	213,737	941,234
BALANCE, DECEMBER 31, 2005	<u>\$4,167,176</u>	<u>\$514,635</u>	<u>\$ 10,741</u>	<u>\$496,587</u>	<u>\$ 895,100</u>	<u>\$ 24,570</u>	<u>\$ (546,510)</u>	<u>\$1,423,554</u>	<u>\$6,985,853</u>

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

(With Deloitte & Touche audit report dated March 17, 2006)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Total consolidated net income	\$ 941,234	\$ 888,356
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	644,752	320,885
(Recovery of) provision for short-term investment valuation	(190)	828
Provision for (recovery from) inventory devaluation	83,288	(8,829)
Equity in net earnings of affiliates	(4,364)	(91,762)
Liquidation gain of long-term equity investments	-	(19)
Permanent decline in value of long-term equity investments	64,670	36,220
Loss on decreased capital stock of long-term equity investments	15,177	346
Exchange loss of long-term equity investments	2,103	-
Net gains on disposal of long-term equity investments	(79,496)	(648)
Net (gains) losses on disposal of property, plant and equipment	(2,190)	133
Loss on abandoned property, plant and equipment	120	69
Unrealized intercompany profit	-	23,340
Net changes in operating assets and liabilities		
Short-term investments for trading purpose	261,724	86,290
Notes receivable	531	(44,724)
Notes receivable from affiliates	10,877	(9,259)
Accounts receivable	(598,483)	(154,766)
Accounts receivable from affiliates	1,364,701	(144,050)
Other receivables	(144,859)	(117,748)
Forward foreign exchange receivable for trading purpose	8,381	735
Other financial assets, current	15,631	(4,534)
Inventories	358,580	(397,911)
Prepayments	(687,460)	(198,473)
Deferred income tax assets, current	30,849	(3,541)
Other current assets	(123,953)	(38,478)
Other financial assets, noncurrent	(46,481)	42,738
Deferred income tax assets, noncurrent	(155,517)	(52,822)
Other assets	(61,563)	(518)
Notes payable	8,819	100,321
Accounts payable	1,357,217	(107,529)
Income tax payable	2,770	102,591
Other payables	358,968	140,378
Advance receipt	(70,157)	38,391
Deferred income tax liabilities, current	27,584	-
Other current liabilities	125,873	(21,102)
Interest expense compensation payable	5,453	8,410
Other liabilities	103,655	17,473
Deferred credits	-	8,890
Net cash provided by operating activities	3,818,244	419,681

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TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in financing deposit	\$ (6,775)	\$ (642)
Decrease (increase) in futures deposits	1,507	(354)
Forward foreign exchange receivable for avoiding the risk of foreign currency exchange	(130,527)	(60,231)
Payments for long-term equity investments	-	(115,361)
Proceeds from decrease in capital stock of long-term equity investments	500	6,902
Proceeds from liquidation of long-term equity investments	-	621
Proceeds from disposal of long-term equity investments	218,176	30,692
Acquisition of property, plant and equipment	(846,846)	(98,668)
Proceeds from disposal of property, plant and equipment	2,993	27,065
Increase in refundable deposits	(421,008)	(59,353)
Increase in goodwill	-	(29,288)
Increase in deferred charges	(132,356)	(8,075)
Net cash used in investing activities	<u>(1,314,336)</u>	<u>(306,692)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term bank borrowings	2,797,810	283,793
Increase in short-term obligations	10,000	20,000
Increase (decrease) in long-term debt	493,334	(158,600)
Payment for bonds payable	-	(210,000)
Payment for lease obligations	-	(1,135)
Increase in minority interest	789,425	56,691
Payment for cash dividend	(662,266)	(187,255)
Decrease in deposits received	(19,080)	(9,796)
Payment for treasury stock	-	(385,458)
Payment for bonuses to directors and supervisors	(14,911)	(3,277)
Net cash provided by (used in) financing activities	<u>3,394,312</u>	<u>(595,037)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(202)</u>	<u>138</u>
EFFECT OF THE FIRST TIME CONSOLIDATION OF SUBSIDIARIES	<u>(5,138,314)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	759,704	(481,910)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>762,813</u>	<u>1,244,723</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,522,517</u>	<u>\$ 762,813</u>

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TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars)

	2005	2004
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest	\$ 150,354	\$ 148,076
Income tax	<u>\$ 501,450</u>	<u>\$ 50,135</u>
Cash paid during the year for acquisition of property, plant and equipment		
Property, plant and equipment acquired	\$ 1,078,651	\$ 81,244
Add liabilities for acquisition of property, plant and equipment at beginning of year	1,585	19,009
Deduct liabilities for acquisition of property, plant and equipment at end of year	<u>(233,390)</u>	<u>(1,585)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 846,846</u>	<u>\$ 98,668</u>
 SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Translation adjustments on long-term equity investments	<u>\$ 1,148</u>	<u>\$ 8,144</u>
Transfer of long-term equity investments to deferred credits	<u>\$ -</u>	<u>\$ 136,184</u>
Transfer of short-term investments to long-term equity investments	<u>\$ -</u>	<u>\$ 12,220</u>
Convertible bonds converted into common stock	<u>\$ 81,462</u>	<u>\$ 310,693</u>
Current portion of bonds payable	<u>\$ 565,707</u>	<u>\$ -</u>
Current portion of long-term liabilities	<u>\$ 30,000</u>	<u>\$ 70,833</u>
Bonuses to employees	<u>\$ 4</u>	<u>\$ -</u>

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

(With Deloitte & Touche audit report dated March 17, 2006)

(Concluded)

TEST-RITE INTERNATIONAL CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(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 2004
Fortune Miles Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Test-Rite Fortune Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Test-Rite Star Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Test-Rite Investment (B.V.I.) Co., Ltd.	Directly held 100.00%	Investment in various industries	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Test-Rite Retailing Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
B&S Link Co., Ltd. (Cayman)	Directly held 100.00%	Investment holding company	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Test-Rite Trading Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Test-Rite Pte Ltd.	Directly held 100.00%	Importation and exportation	100.00	Included
Test-Rite Product (Hong Kong) Ltd.	Directly held 100.00%	Importation and exportation	100.00	Included
TRS Investment Co., Ltd.	Directly held 100.00%	Investment holding company	100.00	Held less than 50%
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	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)

Subsidiaries	Relationship with Parent Company	Main Business	Effective Holding (%)	Reasons for not Including in the Consolidated Financial Statement in 2004
Fusion International Distribution, Inc.	Directly held 100.00%	Trade and agent of goods	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Chung Cin Enterprise Co., Ltd.	Directly held 100.00%	Authorized builder to build dwelling, rental and sale of building	100.00	Included
Quality Master Co., Ltd.	Directly held 100.00%	Investment in various industries	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Test-Rite Quickbuy Co., Ltd.	Indirectly held 100.00%	Sale of articles for daily use	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Chung Cin Interior Design Construction Co., Ltd.	Indirectly held 100.00%	Interior design	100.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Test Cin M&E Engineering Co., Ltd.	Indirectly held 100.00%	Mechanical and electronic engineering	100.00	Included
Chantey (Shanghai) Investment Consultation Ltd.	Indirectly held 100.00%	Provide consultation of construction	100.00	Established in 2005
Tony Construction Co., Ltd.	Indirectly held 100.00%	Build and civil engineering	100.00	Included
Tony Investment Co., Ltd.	Indirectly held 100.00%	Investment in various industries	100.00	Included
Coalue Consultant Co., Ltd.	Indirectly held 80.00%	Consultant of business operation	80.00	Invest in 2005
Test-Rite Development Co., Ltd.	Directly held 80.00%	Investment holding company	80.00	Included
Homy Homefurnishings Co., Ltd.	Indirectly held 80.00%	Sale of bedclothes	80.00	Total assets and total sales of subsidiaries company are less than 3% of those of parent company (Test-Rite)
Homy Homefurnishings (Shanghai) Ltd.	Indirectly held 80.00%	Sale of bedclothes	80.00	Established in 2005
U2 Industry Design Co., Ltd.	Directly held 64.00%	Design new product	64.00	Total assets and total sales of subsidiary company are less than 3% of those of parent company (Test-Rite)
Hola Homefurnishings Co., Ltd.	Indirectly held 58.01%	Importation and exportation, department store, supermarket and restaurant	58.01	Included
Test-Rite B&Q Co., Ltd.	Controllable investee	Sale of house decoration hardware and construction materials	49.99	Controllable but held less than 50%
B&Q Indoor Decoration & Renovation Co., Ltd.	Test-Rite B&Q held 100.00%	Interior design	49.99	Controllable but held less than 50%
Test-Rite Int'l (U.S.) Co., Ltd.	Controllable investee	Importation and exportation	49.00	Controllable but held less than 50%
Test-Rite Int'l (Thailand) Ltd.	Controllable investee	Importation and exportation	48.99	Controllable but held less than 50%
Test-Rite Int'l (Australia) Pty Ltd.	Controllable investee	Importation and exportation	48.00	Controllable but held less than 50%

As of December 31, 2005, Test-Rite and subsidiaries (collectively, the “Company”) have 4,288 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For the convenience of readers, the accompanying 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 the consolidated financial statements in 2004, please see Note 1.

Test-Rite and its subsidiaries adopted SFAS No. 7 “Consolidated Financial Statements”, and included all controllable investees in the consolidated financial statements in 2005. In 2004, the accounts of investees which are more than 50% directly or indirectly owned by the parent company and whose total assets or total sales reached 3% of those of the parent company are included in the consolidated financial statements.

- (a) The information of subsidiaries not included in the consolidated financial statements in 2005: None
- (b) The difference of the fiscal year between parent company and subsidiaries: Not Applicable.
- (c) Special risks of business operation for subsidiaries overseas: None.

Current/Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Allowance for Doubtful Accounts

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

Factoring Accounts Receivable

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

Inventories

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

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

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

Long-Term Investments

Investments in companies in which the Company's ownership interest is 20% or more, or where the Company can exercise significant influence, are accounted for using the equity method of accounting. When equity method of accounting is used, purchased goodwill is amortized over a five-year period. Other long-term investments are carried at cost.

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

The cost basis of the securities, which is accounted for under the cost method and not traded on the Taiwan Stock Exchange or the Over-the-Counter Exchange in Taiwan, is written down to a new cost basis if the decline is judged to be permanent. The amount of nontemporary writedown is accounted for as a realized loss.

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

Property, Plant and Equipment

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

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

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

Buildings and improvements	35~41 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	2~8.25 years
Computers and accessories	3 years
Machinery equipment	2.25~8.25 years
Leasehold improvements	3~10 years
Molds and tools	2~3 years
Other equipment	5 years

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

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

If property, plant and equipment revaluation based on certain regulation shows impairment loss, this loss should be recognized as a reduction of the capital surplus - property, plant and equipment revaluation increment. If the impairment loss is greater than this revaluation increment, the difference is recognized 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.

Deferred Charges

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

Goodwill

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

Patents

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

Allowance for Indemnity Losses on Export

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

Bonds Payable

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

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

Retirement Plan

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

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

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

Foreign Currency Transactions

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

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

Cumulative Translation Adjustments on Long-Term Equity Investments

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

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

Treasury Stock

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

Test-Rite adopted the provisions of Statement of Financial Accounting Standards 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 tax assets and liabilities.

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

Earnings Per Share

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

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

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.

Derivative Financial Instruments

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

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

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

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

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

Non-Derivative Financial Instruments

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

3. ACCOUNTING CHANGE

The Company adopted Statement of Financial Accounting Standards No. 35 "Impairment of Assets" from January 1, 2005. There is no effect on the financial statements for the year ended December 31, 2005.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Petty cash	\$ 31,625	\$ 5,813
Checking deposits	2,818	31,039
Savings deposits	399,515	260,888
Foreign currency deposits	567,259	347,251
Time certificates of deposit	498,013	65,000
Commercial paper	22,991	52,725
Cash equivalents	<u>296</u>	<u>97</u>
	<u>\$1,522,517</u>	<u>\$ 762,813</u>

5. SHORT-TERM INVESTMENTS

The carrying value and market value of short-term investments as of December 31, 2005 and 2004 consist of the following:

	2005		2004	
	Carrying Value	Market Value	Carrying Value	Market Value
Equity securities marketable on Taiwan Stock Exchange and in the over-the- counter market	\$ 1,803	\$ 1,084	\$ 1,979	\$ 1,146
Open-end funds	602,993	604,725	905,787	910,866
Marketable debt securities	38,656	38,256	12,464	12,302
Stock warrant	1,134	1,134	5,649	5,649
Real estate funds	2,000	2,026	-	-
Offshore mutual funds	<u>17,569</u>	<u>17,576</u>	<u>-</u>	<u>-</u>
	664,155	664,801	925,879	929,963
Less allowance for decline in market value	<u>(638)</u>	<u>-</u>	<u>(828)</u>	<u>-</u>
	<u>\$663,517</u>	<u>\$664,801</u>	<u>\$925,051</u>	<u>\$929,963</u>

The short selling of short-term investments as of December 31, 2005 and 2004 is summarized as follows:

	2005		2004	
	Carrying Value	Market Value	Carrying Value	Market Value
Equity securities marketable on Taiwan Stock Exchange	<u>\$ 18,688</u>	<u>\$ 18,688</u>	<u>\$ 11,199</u>	<u>\$ 11,199</u>

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

The investment valuation allowance as of December 31, 2005 amounted to \$638 thousand. After considering the valuation allowance balance of \$828 thousand as of December 31, 2004, the recovery from devaluation amounted to \$190 thousand was reported as deduction of investment loss for the year ended December 31, 2005 (see Note 26). Also, the short selling in the investment as of December 31, 2005 and 2004 amounted to \$18,688 thousand and \$11,199 thousand, which was included in both the receivable on short selling stock and payable on short selling stock. The deposits of short selling amounted to \$16,907 thousand and \$10,132 thousand and were included in financing deposits under other financial assets, current (see Notes 8 and 17).

6. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Non-affiliates		
Notes receivable	\$ 47,958	\$ 48,489
Accounts receivable	1,949,723	1,305,457
Less allowance for doubtful accounts	<u>(52,131)</u>	<u>(6,348)</u>
	<u>1,897,592</u>	<u>1,299,109</u>
	<u>\$ 1,945,550</u>	<u>\$ 1,347,598</u>
Affiliates		
Notes receivable	\$ 20	\$ 10,897
Accounts receivable	26	1,364,727
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>\$ 46</u>	<u>\$ 1,375,624</u>

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

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

As of December 31, 2005 and 2004, the accounts receivable factoring is summarized as follows:

2005				
Object	Interest Rate	Amount of Accounts Receivable Factoring (In Thousands)	Advance from Factor (In Thousands)	Net Amount Due from Factor (In Thousands)
Shanghai Commercial & Saving Bank, Ltd.	Basic loan rate plus 0.4% divided by 94.45%	US\$ 9,839 (About \$323,210 thousand)	US\$ 8,821 (About \$289,756 thousand)	US\$ 1,018 (About \$33,454 thousand)
Hong Kong and Shanghai Banking Corporation Ltd.	LIBOR plus 0.4%	US\$ 908 (About \$29,814 thousand)	US\$ 817 (About \$26,833 thousand)	US\$ 91 (About \$2,981 thousand)
CIT Group	JP Morgan basic loan rate minus 0.25% or 3% annually rate	US\$ 14,982 (About \$492,159 thousand)	US\$ 12,233 (About \$401,854 thousand)	US\$ 2,749 (About \$90,305 thousand)
2004				
Object	Interest Rate	Amount of Accounts Receivable Factoring (In Thousands)	Advance from Factor (In Thousands)	Net Amount Due from Factor (In Thousands)
Shanghai Commercial & Saving Bank, Ltd.	Basic loan rate plus 0.4% divided by 94.45%	US\$ 5,252 (About \$166,775 thousand)	US\$ 4,720 (About \$149,780 thousand)	US\$ 532 (About \$16,995 thousand)

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

Test-Rite Int'l (U.S.) and Test-Rite Development concluded accounts receivable financial agreements with a bank. The agreements declared that the companies should be responsible for the risk of accounts receivable not being collected. As of December 31, 2005, accounts receivable amounted to \$227,800 thousand and \$125,763 thousand was pledged to secure short-term bank borrowing (see Notes 13 and 28).

7. OTHER RECEIVABLES

Other receivables as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Value-added tax refunds receivables	\$ 6,119	\$ 6,842
Receivable from disposal of investment	-	64,792
Advances for related parties (see Note 27)	4,114	32,442
Service fees receivable from related parties (see Note 27)	-	14,536
Commissions receivables	7,346	30,774
Retention for sales of accounts receivable (see Note 6)	126,740	16,995
Compensation insurance receivables	26,948	-
Other	<u>216,552</u>	<u>76,579</u>
	<u>\$387,819</u>	<u>\$242,960</u>

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

Service fees receivable from related parties represent Test-Rite's charges to its affiliates for management fees.

8. OTHER FINANCIAL ASSETS, CURRENT

Other financial assets, current as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Financing deposit (see Note 5)	\$ 16,907	\$ 10,132
Futures deposit	219	1,726
Receivable on short selling stock (see Note 5)	18,688	11,199
Receivable on forward contracts, net (see Note 30)	208,563	86,417
Other	<u>-</u>	<u>23,120</u>
	<u>\$244,377</u>	<u>\$132,594</u>

9. INVENTORIES

Inventories as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Merchandise	\$3,763,286	\$ 751,355
Construction in progress	<u>149,848</u>	<u>306,533</u>
	3,913,134	1,057,888
Less valuation allowance	<u>(58,772)</u>	<u>(29,879)</u>
	<u>\$3,854,362</u>	<u>\$1,028,009</u>

As of December 31, 2005 and 2004, insurance coverage for merchandise amounted to \$1,920,240 thousand and \$448,000 thousand and for construction in progress amounted to \$376,000 thousand and \$1,339,500 thousand.

Construction in progress is Chung Cin's inventories.

10. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2005 and 2004 consist of the following:

	2005			2004	
	Original Accumulate d Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
At equity method					
Test-Rite Int'l (Mexico) Ltd.	\$ 672	\$ 1	49.00	\$ 986	49.00
St. Finesse, Inc.	43,200	46,758	30.00	41,611	30.00

	2005			2004	
	Original Accumulate d Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Test-Rite Fortune Co., Ltd.	-	-	-	5,537	100.00
Test-Rite Star Co., Ltd.	-	-	-	53,157	100.00
Test-Rite Investment (B.V.I.) Co., Ltd.	-	-	-	31,950	100.00
Test-Rite Retailing Co., Ltd.	-	-	-	1	100.00
B&S Link (Cayman) Co., Ltd.	-	-	-	21,716	100.00
Test-Rite Trading Co., Ltd.	-	-	-	1	100.00
B&S Link Co., Ltd.	-	-	-	61,627	100.00
Fusion International Distribution, Inc.	-	-	-	45,264	100.00
Quality Master Co., Ltd.	-	-	-	81,953	100.00
Chung Cin Interior Design Construction Co., Ltd.	-	-	-	12,775	100.00
Test-Rite Quickbuy Co., Ltd.	-	-	-	47,734	100.00
Chantey (Shanghai) Investment Consultant Ltd.	-	-	-	4,549	100.00
Homy Homefurnishings Co., Ltd.	-	-	-	12,243	80.00
U2 Industry Design Co., Ltd.	-	-	-	3,602	64.00
TRS Investment Co., Ltd.	-	-	-	5,033	50.00
Test-Rite B&Q Co., Ltd.	-	-	-	1,290,790	49.99
Test-Rite Int'l (U.S.) Co., Ltd.	-	-	-	1	49.00
Test-Rite Int'l (Thailand) Ltd.	-	-	-	12,841	48.99
Test-Rite Int'l (Australia) Pty Ltd.	-	-	-	13,757	48.00
	<u>43,872</u>	<u>46,759</u>		<u>1,747,128</u>	
At cost method					
Hwa Jan International Co., Ltd. (Samoa)	9,986	9,986	19.00	-	-
TB Commerce Network Co.	31,900	31,900	10.59	31,900	10.59
Test-Rite Int'l (Baparoma) Ltd.	64,670	-	10.00	64,670	10.00
Grandcathy Venture Capital Co., Ltd.	40,000	40,000	5.00	40,000	5.00
NCTU Springl Technology Capital Co., Ltd.	12,036	12,036	4.69	12,036	4.69
Emit Technology Co., Ltd.	10,842	10,842	4.58	18,070	4.58
Yuan Chuang Co., Ltd.	3,302	3,302	1.67	5,000	2.00
Techgains Pan-Pacific Co., Ltd.	19,326	19,326	1.61	9,471	0.81
Highlight Optoelectronics Inc.	3,713	3,713	0.88	3,713	0.88
Quartz Frequency Technology Co., Ltd.	750	750	0.43	7,500	1.29
Taiwan Finance Co., Ltd.	2,120	2,120	0.04	2,120	0.04
Maltaitech Corporation Sdn. Bhd.	-	-	-	25,237	15.00
He Qiao Technology Co., Ltd.	-	-	-	253	0.003
Test-Rite Products Preferred Stock	-	-	-	95,751	-
	<u>\$ 198,645</u>	<u>133,975</u>		<u>315,721</u>	
Bonds investment					
Core Pacific - Yamaichi	\$ 20,791	20,791		19,171	
CMS Interest Principal Guaranteed Notes	<u>3,279</u>	<u>3,279</u>		<u>3,166</u>	
	<u>\$ 24,070</u>	<u>24,070</u>		<u>22,337</u>	

	2005		2004		
	Original Accumulate d Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Real estate investment					
Land		10,228		10,228	
Buildings and improvement		<u>5,634</u>		<u>5,634</u>	
		15,862		15,862	
Accumulated depreciation		<u>(1,082)</u>		<u>(984)</u>	
		<u>14,780</u>		<u>14,878</u>	
Other long-term investments					
Beneficiary certificates of Credit Lyonnais, Paris	\$ 31,000	31,000		-	
Beneficiary certificates C of real estate investment	<u>-</u>	<u>-</u>		<u>114,124</u>	
	<u>\$ 31,000</u>	<u>31,000</u>		<u>114,124</u>	
		<u>\$ 250,584</u>		<u>\$2,214,188</u>	

Equity in earnings or losses of investee companies accounted for by the equity method is recognized based on financial statements of the investees for the same period reported on by the Company. From January 1, 2005, the Company changed to recognize investment income from TR Mexico for the same period. The effect of the change amounted to \$137 thousand investment income. And the financial statements of TR U.S., TR Mexico, TR Thailand, TR Australia and B & Q were audited by other auditors in 2004.

Equity in earnings (losses) of investee companies for the years ended December 31, 2005 and 2004 are summarized as follows:

	2005	2004
TR Mexico	\$ (1,287)	\$ (1,422)
St. Finesse	5,651	(1,590)
TR Fortune	-	355
TR Star	-	2,185
TR Investment (B.V.I.)	-	(693)
TR Retailing	-	(56,112)
B& S Link (Cayman)	-	(3,843)
TR Trading	-	(86,618)
TRS Investment	-	(472)
TR U.S.	-	(48,296)
TR Thailand	-	(335)
TR Australia	-	4,179
B&S Link	-	16,327
Fusion	-	1,444
Quality Master	-	629
Chung Cin Interior Design Construction	-	730
Quickbuy	-	(2,266)
Chuntey (Shanghai) Investment	-	88
Homy Homefurnishings	-	10,067
U2 Industry Design	-	710
B & Q	-	257,359

Everrich	-	(664)
	<u>\$ 4,364</u>	<u>\$ 91,762</u>

TR Mexico is engaged in trading.

St. Finesse, Inc. is engaged in sale of cigarette and wine.

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

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

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

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

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

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

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

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

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

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

Maltaitech Corporation Sdn. Bhd., a company incorporated in Malaysia, is engaged in the manufacturing and sale of horn door knobs and European style door locks. In May 2005, the Company sold all shares to non-affiliates (the selling price is determined based on net value).

He Qiao Technology Co., Ltd. is engaged in trading and manufacturing of thin film media and superpolished substrate. In October 2005, the Company sold all shares to non-affiliates and realized a loss \$156 thousand which was reported as deduction of gain on sale of investments.

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

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

Real estate investment of Lih Teh has been rented to non-affiliates. The rental income for the year ended December 31, 2005 and 2004 amounted to \$812 thousand and \$780 thousand which was reported as other revenue.

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

Beneficiary certificates C of real estate investment: issue period from September 9, 2004 to September 9, 2011; \$180,000 thousand per unit. Chung Cin Enterprise is the original issuer organization, and provided \$27,000 thousand to the preparation account of the trust bank that was reported as refundable deposits. Chung Cin Enterprise has completed the procedure of real estate securitization in 2004 to entrust its real estate to Taishin International Bank. Among the securities, Chung Cin Enterprise purchased back certificates C with a face value of \$180,000 thousand. By the end of 2005, the certificates C have been redeemed by the Taishin International Bank after the entrusted real estate been sold. The Company realized a gain of \$64,611 thousand from this redemption and recorded as gain on sale of investments for 2005.

The Company recognized loss of \$15,177 thousand on reduction of capital in long-term equity investments and permanent devaluation loss \$64,670 thousand on long-term equity investments - cost method (see Note 26).

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2005 and 2004 consist of the following:

	2005			2004
	Original Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 773,813	\$ -	\$ 773,813	\$ 520,656
Buildings and improvements	1,614,847	466,107	1,148,740	1,146,678
Transportation equipment	61,710	33,228	28,482	8,348
Furniture, fixtures and office equipment	1,145,416	659,931	485,485	223,443
Leasehold improvements	4,516,035	1,393,822	3,122,213	20,170
Molds and tools	66,188	54,478	11,710	15,360
Other equipment	229,359	142,157	87,202	-
Construction in progress and prepayments for property, plant and equipment	332,393	-	332,393	268,625
	<u>\$8,739,761</u>	<u>\$2,749,723</u>	<u>\$5,990,038</u>	<u>\$2,203,280</u>

As of December 31, 2005 and 2004, the cost of the leased-out land was \$472,321 thousand and \$193,942 thousand and the carrying value of leased-out buildings and improvements was \$927,640 thousand and \$648,448 thousand, respectively.

As of December 31, 2005 and 2004, the carrying value of property, plant and equipment pledged to secure long-term debt was as follows (see Notes 19 and 28):

	2005	2004
Land	<u>\$267,519</u>	<u>\$267,519</u>

The Company transferred land and building (carrying value \$454,502 thousand) as capital to Chung Cin Enterprise (a construction company 100% owned by the Company, see Note 10). Chung Cin Enterprise has completed the procedure of real estate securitization on September 10, 2004 to entrust its real estate to Taishin International Bank, and collected as well as issued negotiable securities amounted to \$600,000 thousand. Among the securities, Chung Cin Enterprise purchased back certificate C with a face value amounted to \$180,000 thousand. Consequently, the deal was regarded as partially unsold in accordance with Accounting Research and Development Foundation No. 141 "Real Estate Securitization". For the year ended December 31, 2004, Chung Cin Enterprise has recognized gain on disposal of assets. However those real estate entrusted to Taishin International Bank had been sold out in 2005 and the certificate C had been paid off by Chung Cin Enterprise. Therefore, Chung Cin

Enterprise recognized a gain.

As of December 31, 2005 and 2004, insurance coverage for property, plant and equipment, excluding land and prepayments for property, plant and equipment, amounted to \$8,269,786 thousand and \$2,226,927 thousand, respectively.

12. OTHER ASSETS

Other assets as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Deferred charges (see Note 2)	\$ 104,318	\$ 68,281
Patents (see Note 2)	489	333
Deferred tax asset, noncurrent (see Note 25)	323,339	167,822
Prepaid pension cost (see Note 20)	21,373	15,462
Deferred pension cost	6,899	2,438
Goodwill (see Note 2)	48,584	51,725
Other	<u>53,494</u>	<u>2,461</u>
	<u>\$ 558,496</u>	<u>\$ 308,522</u>

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

13. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings as of December 31, 2005 and 2004 consist of the following:

	<u>2005</u>		<u>2004</u>	
	Interest Rate %	Amount	Interest Rate %	Amount
Unsecured loans	4.596~5.140	\$ 544,200	1.45~2.95	\$ 635,337
Secured loans	3.33~7.00	<u>2,888,947</u>	-	<u>-</u>
		<u>\$ 3,433,147</u>		<u>\$ 635,337</u>

The amount of \$2,535,384 thousand was guaranteed by Test-Rite International Co., Ltd., Tony Ho and Judy Lee. The amount of \$227,800 thousand was secured by the accounts receivable of TR Int'l (U.S.) Co., Ltd. and \$125,763 thousand was secured by the accounts receivable of TR Development Co., Ltd. (see Note 6).

14. SHORT-TERM OBLIGATIONS

Short-term obligations as of December 31, 2005 and 2004 consist of the following:

	<u>2005</u>		<u>2004</u>	
	Interest Rate %	Amount	Interest Rate %	Amount
Commercial paper, unsecured	1.25	\$ 30,000	0.73	\$ 20,000

15. OTHER PAYABLES

Other payables as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Accrued expenses	\$ 763,037	\$ 407,178
Interest payable	30,714	30,429
Other notes payable	72,458	23,272
Payables for purchase of property, plant and equipment	233,390	1,585
Other	<u>84,470</u>	<u>130,828</u>
	<u>\$ 1,184,069</u>	<u>\$ 593,292</u>

16. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Bonds payable (see Note 18)	\$ 565,707	\$ -
Long-term debt (see Note 19)	<u>30,000</u>	<u>70,833</u>
	<u>\$ 595,707</u>	<u>\$ 70,833</u>

17. OTHER CURRENT LIABILITIES

Other current liabilities as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Receipts under custody	\$ 21,067	\$ 3,925
Allowance for indemnity losses on exports (see Note 2)	3,064	4,879
Financing payable (see Note 5)	18,688	11,199
Deferred tax liabilities, current (see Note 25)	27,584	-
Other	<u>139,667</u>	<u>36,610</u>
	<u>\$ 210,070</u>	<u>\$ 56,613</u>

18. BONDS PAYABLE

Bonds payable as of December 31, 2005 and 2004 consist of the following:

	2005	2004
Domestic unsecured bonds (Bond I)	\$ 440,000	\$ 440,000
Domestic convertible bonds (Bond II)	116,000	193,400
Interest expense compensation payable	9,707	8,316
Less current portion	<u>(565,707)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 641,716</u>

Domestic Unsecured Bonds

Bonds I

Test-Rite issued \$500,000 thousand of secured corporate bonds on February 4, 1999, for the purpose of building warehouse center. The bonds, with a face value of \$500,000 thousand, have maturity of \$440,000 thousand and \$60,000 thousand on February 4, 2006 and February 4, 2002, respectively. The bonds' annual contract rate is index rate plus 1.2% and 0.8%, respectively, and the compound interest is paid quarterly. The interest rate of the bonds with maturity of \$440,000 thousand is changed to single interest 6.41% per annum from February 4, 2000.

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

Domestic Convertible Bonds

Bonds II

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

Terms and conditions of bonds are outlined as follows:

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

Conversion Terms

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

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

The conversion price was set at \$14.40 dollars per share and the conversion price will be adjusted to \$11.5 dollars per share at August 23, 2005. The conversion price is subject to adjustment based on changes of Test-Rite's capital account or the market value which is lower than the conversion price.

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

As of December 31, 2005, Test-Rite's bondholders have converted bonds into 27,600,194 common shares, which resulted in \$116,153 thousand additional paid-in capital.

According to the redemption terms, Test-Rite reclassified bonds payable of \$125,707 thousand to current portion in 2005 (see Note 16).

19. LONG-TERM DEBT

Long-term debt as of December 31, 2005 and 2004 consists of the following:

	2005		2004
	Interest Rate	Amount	Amount
Credit Lyonnais			
Unsecured loan from September 29, 2003 to September 29, 2008. Interest is paid monthly, principal due on September 29, 2008. Interest rate is 2.64%.	2.64	\$ 500,000	\$ 500,000
Taipei Bank			
Unsecured loan from July 25, 2003 to July 25, 2008. Interest is paid monthly, principal due on July 25, 2008. Interest rate is discount rate plus 0.90%.	2.329	275,000	300,000
International Bank of Taipei			
Pledged loan from October 28, 2004 to August 28, 2007. Interest is paid monthly, principal due on August 28, 2007. Interest rate is one year deposit rate plus 0.575%.	2.445	261,400	261,400
Pledged loan from November 1, 2004 to November 1, 2006. In February and May, the Company paid the principal in advance of the due date.	-	-	91,666
Taishin International Bank			
Unsecured loan from December 13, 2005 to December 13, 2008. Interest is paid monthly, principal due on December 13, 2008.	2.42	200,000	-
Shanghai Commercial & Savings Bank			
Unsecured loan from December 8, 2005 to December 8, 2008, the first installment on March 8, 2007 and principal due in quarterly installment. Interest is paid monthly.	2.445	150,000	-
Chiaotung Bank			
Unsecured loan from December 30, 2005 to December 30, 2008. Interest is paid monthly. The Company may pay the principal before the due day.	Floating	150,000	-

	2005		2004
	Interest Rate	Amount	Amount
East Asia Bank			
Unsecured loan from February 25, 2005 to February 25, 2008, the first installment on August 25, 2006 and principal due in half year installment. Interest is paid monthly.	2.55~2.56	60,000	-
East Asia Bank			
Unsecured loan from December 14, 2005 to December 14, 2008, the first installment on June 14, 2007 and principal due in half year installment. Interest is paid monthly.	2.58	100,000	-
E. Sun Bank			
Unsecured loan from September 3, 2004 to September 3, 2007, the first installment on September 3, 2005 and principal due in quarterly installment. In April 2005, the Company paid the principal in advance of the due day.	-	-	100,000
Ta Chong Bank			
Unsecured loan from August 25, 2005 to August 25, 2010, the first installment on August 25, 2010, the first installment on August 25, 2006 and principal due in quarterly installment.	2.40~2.74	50,000	-
		1,746,400	1,253,066
Less current portion		(30,000)	(70,833)
		<u>\$1,716,400</u>	<u>\$1,182,233</u>

See Note 11 for collateral on bank borrowing.

See Note 27 for guarantee on bank borrowing.

20. RETIREMENT PLAN

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

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

	2005	2004
Service cost	\$20,621	\$18,757
Interest cost	7,711	5,297
Actual return on plan assets	(37)	-
Expected return on plan assets	(6,679)	(5,797)
Amortization of net transition asset	(367)	(421)
Amortization of pension loss	<u>1,085</u>	<u>-</u>
	<u>\$22,334</u>	<u>\$17,836</u>

The following table sets forth the actuarial assumptions and plan's status as of December 31, 2005 and 2004:

	2005	2004
Weighted-average discount rate	3.00%~3.25%	3.00%~3.25%
Expected rate of return on plan assets	3.00%~3.25%	3.00%~3.25%
Assumed rate of increase in salary	2.50%~5.00%	2.5%~5.00%

	2005	2004
Actuarial present value of benefit obligation		
Vested benefits	\$ (106,072)	\$ (33,022)
Nonvested benefits	<u>(87,776)</u>	<u>(92,652)</u>
Accumulated benefit obligation	(193,848)	(125,674)
Additional benefits at future salaries	<u>(55,738)</u>	<u>(56,378)</u>
Projected benefit obligation	(249,586)	(182,052)
Plan assets at fair value	<u>202,014</u>	<u>161,807</u>
Projected benefit obligation in excess of plan assets	(47,572)	(20,245)
Net transition asset not yet recognized	(730)	(4,635)
Net pension loss not yet recognized	43,333	31,977
Deferred pension cost	(945)	-
Additional pension liability	7,119	2,313
Accrued pension cost	<u>(2,503)</u>	<u>-</u>
	(1,298)	9,410
Prepaid pension cost assets (included in other assets)	<u>(21,373)</u>	<u>(15,462)</u>
Accrued pension liability (included in other liabilities)	<u>\$ (22,671)</u>	<u>\$ (6,052)</u>

21. CAPITAL STOCK

Test-Rite's capital stock as of December 31, 2005 and 2004 consists of the following:

	2005	2004
Registered capital		
Share (thousand shares)	<u>550,000</u>	<u>550,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$5,500,000</u>	<u>\$5,500,000</u>
Issued capital		
Share (thousand shares)	<u>416,718</u>	<u>397,311</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$4,167,176</u>	<u>\$3,973,113</u>

Test-Rite's outstanding capital stock as of January 1, 2005, amounted to \$3,973,113 thousand. For the year ended December 31, 2005, Test-Rite's bondholders have converted bonds amounting to \$76,800 thousand into 6,083,338 common shares amounting to \$60,834 thousand. From the 2004 retained earnings, transferred bonuses to employees of \$59,640 thousand, and stock dividends of \$73,589 thousand, total \$133,229 thousand for transfer to outstanding capital stock. Consequently, as of December 31, 2005, Test-Rite's capital stock was increased to \$4,167,176 thousand consisting of 416,717,612 outstanding common shares having a par value of \$10 dollars each.

In their June 14, 2005 and June 11, 2004 meeting, the stockholders decided to distribute retained earnings as follows:

	<u>Distributions of Earnings</u>		<u>Dividends Per Share (In Dollars)</u>	
	2004	2003	2004	2003
Legal reserve	\$ 82,839	\$ 18,206	-	-
Cash dividends	662,304	187,255	1.80	0.50
Stock dividends	73,589	37,451	0.20	0.10
Bonuses to employees - stock	59,640	13,108	-	-
Bonuses to director and supervisors - cash	14,911	3,277	-	-

For the years ended December 31, 2005 and 2004, earnings per share is calculated as follows:

	2005				
	Amount (Numerator)			Earnings per Share (In Dollars)	
	Income Before Tax Include Minority	Parent Co. Stockholders Income After Tax	Shares (Denominator)	Income Before Tax Include Minority	Parent Co. Stockholders Income After Tax
Net income	\$1,254,768	\$ 727,497			
Basic earnings per share					
Net income to stockholders of common stock	\$1,254,768	\$ 727,497	383,024,432	\$ 3.28	\$ 1.90
The effects of dilutive potential ordinary shares					
Convertible bonds with real interest rate of 3.50%	4,081	3,061	10,139,130	(0.08)	(0.04)
Diluted earnings per share					
Net income to stockholders of common stock and the effects of potential ordinary shares	\$1,258,849	\$ 730,558	393,163,562	\$ 3.20	\$ 1.86
	2004 (After Giving Retroactive Effects)				
	Amount (Numerator)			Earnings per Share (In Dollars)	
	Income Before Tax Include Minority	Parent Co. Stockholders Income After Tax	Shares (Denominator)	Income Before Tax Include Minority	Parent Co. Stockholders Income After Tax
Net income	\$1,031,666	\$ 831,975			
Basic earnings per share					
Net income to stockholders of common stock	\$1,031,666	\$ 831,975	381,716,083	\$ 2.70	\$ 2.18
The effects of dilutive potential ordinary shares					
Convertible bonds with real interest rate of 3.50%	6,769	5,077	14,116,788	(0.08)	(0.07)
Diluted earnings per share					
Net income to stockholders of common stock and the effects of potential ordinary shares	\$1,038,435	\$ 837,052	395,832,871	\$ 2.62	\$ 2.11

Earnings per share for the year ended December 31, 2004 was based upon the weighted average number of common shares outstanding during the year after giving retroactive effects to the stock dividends and stock bonuses declared in 2005.

22. RETAINED EARNINGS

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

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

Regarding the 2005 retained earnings proposition by the board of directors and the approval at the stockholders' meeting, please refer to the Market Observation Post System ("MOPS") of the Taiwan Stock Exchange.

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

23. TREASURY STOCK

The changes of treasury stock for the year ended December 31, 2005 are summarized as follows (in shares):

Reason	2005.1.1	Increase	Decrease	2005.12.31
Buy the stock back to transfer to employees	30,000,000	-	-	30,000,000
Shares held by Quality Master	<u>21,490</u>	<u>426</u>	-	<u>21,916</u>
	<u>30,021,490</u>	<u>426</u>	-	<u>30,021,916</u>

As of December 31, 2005, the treasury stock of Test-Rite was 30,021,916 shares, cost \$546,510 thousand, including \$546,238 thousand bought by Test-Rite and \$272 thousand held by Quality Master.

According to the Stock Exchange Law of ROC, the shares of treasury stock should not be over 10% of the Company's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The highest number of shares of treasury stock that holding company held as of December 31, 2005 was 30,000,000 shares and the total amount was \$546,238 thousand pursuant to the law.

As a result of the stock dividends, the treasury stock shares held by Quality Master increased by 426 shares.

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

24. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2005 and 2004 are summarized as follows:

Expense Item	Function	2005			2004		
		Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense							
Salary		\$ 32,874	\$1,860,169	\$1,893,043	\$ 33,494	\$ 672,924	\$ 706,418
Labor/health insurance		2,327	116,771	119,098	1,903	36,653	38,556
Pension		740	61,769	62,509	-	18,274	18,274
Other		1,272	147,016	148,288	966	37,722	38,688
Depreciation		73,369	471,923	545,292	49,202	140,592	189,794
Amortization		259	99,201	99,460	-	131,091	131,091

25. INCOME TAX

The components of income tax expense for the year ended December 31, 2005 are as follows:

Current income tax expenses	\$ 347,737
Estimated 10% of income tax on 2004 undistributed earnings	12,108
Deferred tax asset adjustment and change in adjustment of valuation allowance	(39,870)
Adjustment of prior years' tax expenses	<u>(6,441)</u>
Income tax expense	<u>\$ 313,534</u>

The tax effects of deductible temporary differences that gave rise to deferred tax assets as of December 31, 2005 are as follows:

Losses carryforward	\$ 30,565
Other	<u>303,499</u>
	334,064
Less valuation allowance	<u>(9,605)</u>
Net deferred tax assets	324,459
Add deferred tax liabilities, current	27,584
Less deferred tax assets, noncurrent	<u>(323,339)</u>
Deferred tax assets, current	<u>\$ 28,704</u>

Current income tax for the year ended December 31, 2005 and income tax payable as of December 31, 2005 are generated as follows:

Income tax expense at statutory rate	\$ 314,000
Increase in tax resulting from other income	<u>33,737</u>
Current tax expense	347,737
Other	<u>(82,441)</u>
Income tax payable	265,296
Add estimated 10% of income tax on 2004 undistributed earnings	12,108
Less prepayments and withholdings in 2005	(95,301)
Add income tax payable for the prior years	<u>16,451</u>
Income tax payable as of December 31, 2005	<u>\$ 198,554</u>

The reported prepaid income tax and withholdings of \$14,862 thousand as of December 31, 2005 were the 2005 and prior year's income tax prepayments.

Losses carryforward as of December 31, 2005 for income tax purposes are as follows:

Year Expired	Amount
2006	\$ 5,500
2007	6,000
2008	12,535
2009	1,230
2010	<u>5,300</u>
	<u>\$30,565</u>

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

IC on undistributed earnings as of December 31, 2005	\$ 134,831
Undistributed earnings in years from 1997 and before	<u>\$ 222,231</u>
Undistributed earnings in years from 1998 and after	<u>\$ 672,869</u>
Actual IC ratio on distributed earnings in 2005	33.52%
Expected IC ratio on distributed earnings in 2006	24.08%

The calculation of the expected 2006 IC ratio includes estimated income tax expense in 2005.

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

26. NET INVESTMENT LOSS

Net investment loss (gain) for the years ended December 31, 2005 and 2004 is summarized as follows:

	2005	2004
(Provision for) recovery from devaluation in marketable securities (see Note 5)	\$ (190)	\$ 828
Loss on decreased capital stock of long-term equity investments (see Note 10)	15,177	346
Liquidation gain of long-term equity investments	-	(19)
Permanent decline in value of long-term equity investments (see Note 10)	64,670	36,220
Cash dividends	<u>(2,497)</u>	<u>(2,890)</u>
	<u>\$77,160</u>	<u>\$34,485</u>

27. RELATED PARTY TRANSACTIONS

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

2005	
Name	Relationship
Test-Rite Int'l (Mexico) Ltd. ("TR Mexico")	Parent company holds 49.00% ownership interest
Up Master Investment Co., Ltd. ("Up Master")	Related party in substance
Li Xiong Co., Ltd.	Up Master holds 100.00% ownership interest
X-Cel Relationship Management Co., Ltd.	Related party in substance
Tony Ho	Chairman of parent company
Judy Lee	Parent company's managing director
2004	
Name	Relationship
Fortune Miles Trading ("Fortune Miles")	Parent company holds 100.00% ownership interest
Test-Rite Fortune Co., Ltd. ("TR Fortune")	Parent company holds 100.00% ownership interest
Test-Rite Star Co., Ltd. ("TR Star")	Parent company holds 100.00% ownership interest
Test-Rite Retailing Co., Ltd. ("TR Retailing")	Parent company holds 100.00% ownership interest
Test-Rite Trading Co., Ltd. ("TR Trading")	Parent company holds 100.00% ownership interest
Test-Rite Int'l (U.S.) Co., Ltd. ("TR U.S.")	Parent company holds 49.00% ownership interest
Test-Rite Int'l (Mexico) Ltd. ("TR Mexico")	Parent company holds 49.00% ownership interest
Test-Rite Int'l (Thailand) Ltd. ("TR Thailand")	Parent company holds 48.99% ownership interest
Test-Rite Int'l (Australia) Pty Ltd. ("TR Australia")	Parent company holds 48.00% ownership interest
Test-Rite Int'l (France) Ltd. ("TR France")	Parent company holds 48.00% ownership interest (Liquidated in 2003)
Lih Teh Warehouse Co., Ltd. ("Lih Teh Warehouse")	TR Fortune holds 100.00% ownership interest
Test-Rite Fortune Consultant Co., Ltd. ("TR Fortune Consultant")	TR Trading holds 100.00% ownership interest
Hola Shanghai Consultant Co., Ltd. ("Hola Shanghai Consultant")	TR Retailing holds 100.00% ownership interest
Northcote	TR Star holds 48.00% ownership interest
CENDYNE	Fortune Miles holds 50.00% ownership interest
Test-Rite Products Corp. ("TR PC")	Test-Rite Int'l (U.S.) hold 89.47% ownership interest
Master Design Inc. ("MDI")	TR PC holds 100.00% ownership interest
North America Cord & Cable ("NACC")	TR PC holds 100.00% ownership interest
Landia Co., Ltd. ("Landia")	TR PC holds 100.00% ownership interest
B&S Link Co., Ltd. ("B&S Link")	Parent company holds 100.00% ownership interest
Fusion International Distribution, Inc. ("Fusion")	Parent company holds 100.00% ownership interest

2004

Name	Relationship
Quality Master Co., Ltd. (“Quality Master”)	Parent company holds 100.00% ownership interest
U2 Industry Design Co., Ltd. (“U2 Industry Design”)	Parent company holds 64.00% ownership interest
Test-Rite Quickbuy Co., Ltd. (“TR Quickbuy”)	Lih Teh holds 100.00% ownership interest
Homy Homefurnishings Co., Ltd. (“Homy”)	Lih Teh holds 80.00% ownership interest
Test-Rite B&Q Int’l Co., Ltd. (“B&Q”)	Parent company holds 49.99% ownership interest
Up Master Investment Co., Ltd. (“Up Master”)	Same chairman as parent company
X-Cel Relationship Management Co., Ltd.	Related party in substance
Tony Ho	Chairman of parent company
Robin Ho	One of the immediate family members of parent company’s chairman
Joyce Ho	One of the immediate family members of parent company’s chairman
Kelly Ho	One of the immediate family members of parent company’s chairman
Judy Lee	Parent company’s managing director

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

Operating Revenues

Operating revenues from related parties for the years ended December 31, 2005 and 2004 are summarized as follows:

	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
Sales revenue				
TR PC	\$ -	-	\$ 2,149,992	10
MDI	-	-	991,725	5
B&Q	-	-	922,795	4
NACC	-	-	383,130	2
Homy	-	-	26,279	-
Others	-	-	63,423	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 4,537,344</u>	<u>21</u>
Construction revenue				
B&Q	\$ -	-	\$ 264,211	2
Other	-	-	64	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 264,275</u>	<u>2</u>
Maintenance revenue				
B&Q	\$ -	-	\$ 35,561	-
Other	-	-	187	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 35,748</u>	<u>-</u>

The Company's sales revenue from foreign parties is received by T/T, accounts receivable is about 90 to 240 days and annual interest rate is 5.00%~6.00%.

The terms and prices of intercompany construction revenue are in accordance with the contractual agreements.

The terms and prices of intercompany maintenance revenue are not significantly different from those to third parties.

Rental Income

Rental income from related parties for the years ended December 31, 2005 and 2004 is summarized below:

	2005		2004	
	Amount	%	Amount	%
B&Q	\$ -	-	\$ 110,892	72
Homy	-	-	8,994	6
B&S Link	-	-	4,380	3
U2 Industry Design	-	-	2,396	2
Others	151	-	1,143	-
	<u>\$ 151</u>	<u>-</u>	<u>\$ 127,805</u>	<u>83</u>

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

Construction Contracts

Construction contracts of Chung Cin with related parties for the year ended December 31, 2004 is summarized below:

Construction Name		Total Construction Price (Exclude Tax)	Recognized Revenues	Advance Construction Receipts (According to Actual Cost Incurred)
B&Q	Other	\$ 3,012	\$ 3,012	\$ -
Quality Master	Other	100	100	-
U2 Industry Design	Other	46	46	-
B&S Link	Other	58	58	-
Homy	Other	7	7	-
		<u>\$ 3,223</u>	<u>\$ 3,223</u>	<u>\$ -</u>

Commission Income

Commission income from related parties for the years ended December 31, 2005 and 2004 is summarized below:

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
MDI	\$ -	-	\$ 27,636	17
NACC	-	-	4,837	3
	<u>\$ -</u>	<u>-</u>	<u>\$ 32,473</u>	<u>20</u>

Interest Income

Interest income from related parties for the years ended December 31, 2005 and 2004 is summarized below:

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
TR PC	\$ -	-	\$ 1,322	6
NACC	-	-	428	2
Others	-	-	52	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 1,802</u>	<u>8</u>

Service Income

Service income from related parties for the years ended December 31, 2005 and 2004 is summarized below:

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
X-Cel Relationship Management	\$ 114	-	\$ 114	-
Up Master	114	-	114	-
B&Q	-	-	6,830	23
Homy	-	-	1,626	6
B&S Link	-	-	1,408	5
U2 Industry Design	-	-	1,226	4
Quickbuy	-	-	388	1
Fusion	-	-	114	-
Quality Master	-	-	114	-
	<u>\$ 228</u>	<u>-</u>	<u>\$ 11,934</u>	<u>39</u>

Other Income

Other income from related parties for the years ended December 31, 2005 and 2004 is summarized below:

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
B&Q	\$ -	-	\$ 59,802	68
NACC	-	-	9,931	11
Homy	-	-	2,052	2
Others	-	-	579	1
	<u>\$ -</u>	<u>-</u>	<u>\$ 72,364</u>	<u>82</u>

Selling, General and Administrative Expenses - Commission Expenses

Commission expenses to related parties for the years ended December 31, 2005 and 2004 are summarized below:

	2005		2004	
	Amount	%	Amount	%
TR Mexico	\$ 15,767	5	\$ 21,993	6
NACC	-	-	57,397	17
TR Australia	-	-	47,439	14
TR PC	-	-	36,599	11
Landia	-	-	10,977	3
	<u>\$ 15,767</u>	<u>5</u>	<u>\$ 174,405</u>	<u>51</u>

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

Selling, General and Administrative Expenses - Export Expenses

Export expenses to related parties for the years ended December 31, 2005 and 2004 are summarized below:

	2005		2004	
	Amount	%	Amount	%
TR Fortune Consultant	\$ -	-	\$ 93,569	77
TR RC	-	-	2,354	2
Others	-	-	49	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 95,972</u>	<u>79</u>

Export expenses to related parties are paid to foreign TR to inspect and test export goods.

Selling, General and Administrative Expenses - Rental Expenses

Rental expenses to related parties for the years ended December 31, 2005 and 2004 are summarized below:

	2005		2004	
	Amount	%	Amount	%
B&Q	\$ -	-	\$ 47,709	17
Lih Teh Warehouse	-	-	7,698	3
UP Master	-	-	7,430	3
X- Cel Relationship Management	-	-	1,650	1
	<u>\$ -</u>	<u>-</u>	<u>\$ 64,487</u>	<u>24</u>

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

Selling, General and Administrative Expense - Advertising Expenses

Advertisement expenses to related parties for the years ended December 31, 2005 and 2004 are summarized below:

	2005		2004	
	Amount	%	Amount	%
B&Q	\$ -	-	\$ 33,666	20

Due from Related Parties

Due from related parties as of December 31, 2005 and 2004 are summarized below:

	2005		2004	
	Amount	%	Amount	%
Notes receivable				
Homy	\$ -	-	\$ 8,698	15
B&S Link	-	-	2,171	3
Others	20	-	28	-
	<u>\$ 20</u>	<u>-</u>	<u>\$ 10,897</u>	<u>18</u>
Accounts receivable				
TR PC	\$ -	-	\$ 687,240	26
MDI	-	-	333,753	13
B&Q	-	-	174,621	7
NACC	-	-	145,211	5
Others	26	-	23,902	1
	<u>\$ 26</u>	<u>-</u>	<u>\$ 1,364,727</u>	<u>52</u>
Advances for related parties				
		10		
TR Mexico	\$ 4,114	0	\$ 16	-
TR PC	-	-	15,782	49
NACC	-	-	9,931	31
TR Retailing	-	-	4,008	12
B&S Link	-	-	1,240	4
TR Thailand	-	-	685	2
MDI	-	-	151	-
B&Q	-	-	28	-
Others	-	-	601	2
		10		10
	<u>\$ 4,114</u>	<u>0</u>	<u>\$ 32,442</u>	<u>0</u>
Service fees receivable				
B&Q	\$ -	-	\$ 13,950	96
Homy	-	-	299	2
Others	-	-	287	2
	<u>\$ -</u>	<u>-</u>	<u>\$ 14,536</u>	<u>10</u>

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
				<u>0</u>
Commission receivable				
MDI	<u>\$ -</u>	<u>-</u>	<u>\$ 3,012</u>	<u>10</u>
Advances for related parties, noncurrent				
CENDYNE	<u>\$ 184,679</u>	<u>10</u>	<u>\$ 128,973</u>	<u>10</u>
		<u>0</u>		<u>0</u>

Due to Related Parties

Due to related parties as of December 31, 2005 and 2004 are summarized below:

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Refundable deposit				
B&Q	<u>\$ -</u>	<u>-</u>	<u>\$ 26,301</u>	<u>14</u>
Accrued commission expenses				
TR Mexico	1,655	6	6,099	9
NACC	-	-	19,025	28
TR PC	-	-	4,107	6
TR Australia	-	-	2,822	4
Others	-	-	207	-
	<u>\$ 1,655</u>	<u>6</u>	<u>\$ 32,260</u>	<u>47</u>
Accrued export expenses				
TR Fortune Consultant	<u>\$ -</u>	<u>-</u>	<u>\$ 8,329</u>	<u>92</u>
Accrued advertisement expenses				
B&Q	<u>\$ -</u>	<u>-</u>	<u>\$ 20,572</u>	<u>54</u>
Deposits received				
B&Q	<u>\$ -</u>	<u>-</u>	<u>\$ 51,804</u>	<u>86</u>
Homy	-	-	1,540	3
B&S Link	-	-	713	1
U2 Industry Design	-	-	520	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 54,577</u>	<u>90</u>

Payment of Credit Guarantees

See Note 29.

As of December 31, 2005, long-term debt of \$1,435,000 thousand was guaranteed by Tony Ho and Judy Lee.

28. PLEDGED ASSETS

Assets pledged for various purposes as of December 31, 2005 and 2004 are summarized as follows:

	2005	2004
Accounts receivable (see Note 6)	\$ 353,563	\$ -
Land (see Note 11)	<u>267,519</u>	<u>267,519</u>
	<u>\$621,082</u>	<u>\$267,519</u>

29. COMMITMENTS AND CONTINGENCIES

Letter of Credit

Test-Rite's outstanding letters of credit not reflected in the accompanying financial statements as of December 31, 2005 and 2004 are US\$3,012 thousand and US\$2,335 thousand.

Chung Cin entered into construction contract with a construction company. As of December 31, 2005, according to the agreement, the remaining balance \$583,943 thousand will be paid according to completion of construction.

Endorsements and Guarantees

Outstanding endorsements and guarantees in standby letters of credit (L/C) and corporate guarantees as of December 31, 2005 and 2004 are as follows:

Standby L/Cs

	2005	2004
TR PC	US\$ -	US\$ 11,200

Corporate Guarantees

	2005	2004
TR PC	US\$ -	US\$ 4,000
Hola Shanghai Consultant	US\$ -	US\$ 1,263
U2 Industry Design	NT\$ -	NT\$ 5,000
Compass Home	US\$ -	US\$ 3,000
MDI	US\$ -	US\$ 6,000
TR Thailand	US\$ -	US\$ 1,299
TR Trading and TR Retailing	US\$ -	US\$ 1,250

Litigation

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

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

Operating Lease

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

List of rent expense that should be paid each year in the future 5 years and the present value of rentals from 2011 to 2018 as of December 31, 2005:

Period	Amount
2006	\$ 62,874
2007	64,760
2008	66,703
2009	68,704
2010	70,765
2011~2015 (present value \$301,855 thousand)	386,974
2016~2018 (present value \$164,833 thousand)	<u>242,338</u>
	<u>\$963,118</u>

Chung Cin Enterprise entered into lease agreements with non-affiliates and received deposits of \$12,579 thousand for its store premises as follows:

List of rent income that should be received each year in the future 5 years and the present value of rentals from 2011 to 2025 as of December 31, 2005:

Period	Amount
2006	\$ 53,251
2007	49,027
2008	41,169
2009	25,159
2010	23,234
2011~2015 (present value \$65,872 thousand)	78,675
2016~2020 (present value \$10,474 thousand)	14,801
2021~2025 (present value \$8,162 thousand)	<u>13,363</u>
	<u>\$298,679</u>

Chung Cin Enterprise entered into lease agreements with non-affiliate for store premises and paid deposits \$14,524 thousand as follows:

List of rent expense that should be paid each year in the future 5 years and the present value of rentals from 2011 to 2025 as of December 31, 2005:

Period	Amount
2006	\$ 27,280
2007	27,280
2008	28,643
2009	28,643
2010	28,643
2011~2015 (present value \$141,749 thousand)	153,386
2016~2020 (present value \$143,540 thousand)	165,871
2021~2025 (present value \$120,536 thousand)	<u>147,969</u>
	<u>\$607,715</u>

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

List of rent expense that should be paid each year in the future 5 years and the present value of rentals from 2011 to 2012 as of December 31, 2005:

Period	Amount
2006	\$ 103,198
2007	94,257
2008	72,406
2009	63,770
2010	63,313
2011~2012	<u>124,164</u>
	<u>\$521,108</u>

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

List of royalty expense that should be paid each year in the future 5 years as of December 31, 2005:

Period	Amount
2006	\$ 15,809
2007	7,939
2008	6,570
2009	6,570
2010	<u>6,570</u>
	<u>\$ 43,458</u>

30. OTHERS

According to Statement of Financial Accounting Standards (“SFAS”) No. 27, “Disclosure of Financial Instruments,” derivative financial instruments of Test-Rite as of December 31, 2005 are summarized as follows:

Nominal Amount and Credit Risk

The forward exchange contract as of December 31, 2005 and 2004 is summarized below:

Financial Instruments	Type	2005		2004	
		Nominal Amount	Credit Risk	Nominal Amount	Credit Risk
Non-trading purpose					
Forward exchange	Sale	US\$ 101,300	-	US\$ 49,000	-
	Buy	US\$ 49	-	US\$ -	-
Trading purpose					
Forward exchange	Sale	-	-	US\$ 4,500	-
	Buy	-	-	EUR€ 5,000	-

The option contracts as of December 31, 2005 and 2004 are summarized below:

	2005					
	Contract Amount	Call Option	Put Option	Exchange Rate	Maturity Day	Credit Risk
Sell option contract						
Trading purpose	EUR€ 16,000	EUR	USD	1.22~1.26	2006.07.05 ~2006.12.12	-
	US\$ 8,000	USD	NTD	31.8	2006.01.11 ~2006.01.27	-
	EUR€ 24,000	USD	EUR	1.16~1.185	2006.02.28 ~2006.12.12	-
	US\$ 5,000	NTD	USD	29.8~30.2	2006.01.05 ~2006.03.02	-
Buy option contract						
Trading purpose	EUR€ 8,000	EUR	USD	1.17~1.19	2006.02.28 ~2006.07.05	-
Interest rate swap	NT\$ 200,000	-	-	4.00	2006.06.02	-
	NT\$ 220,000	NTD	JPY	Floating	2006.02.04	-
	NT\$ 220,000	NTD	USD	Floating	2006.02.04	-
2004						
	Contract Amount	Call Option	Put Option	Exchange Rate	Maturity Day	Credit Risk
Sell option contract						
Trading purpose	EUR€ 3,000	EUR	USD	1.38~1.39	2005.02.02 ~2005.03.01	-
	EUR€ 4,000	USD	EUR	1.18~1.30	2005.01.14 ~2005.04.25	-
	US\$ 6,000	YEN	USD	100.40~102.00	2005.01.25 ~2005.03.29	-
	US\$ 12,000	USD	NTD	32.60~34.14	2005.02.22 ~2005.02.23	-
Non-trading purpose	US\$ 36,000	NTD	USD	30.20	2005.02.02 ~2006.01.03	-
Cross currency swap	US\$ 47,000	NTD	USD	32.449~32.976	2005.02.22 ~2005.10.13	-
Interest rate swap	NT\$ 200,000	-	-	4.00	2006.06.02	-
	NT\$ 220,000	NTD	JPY	Floating	2006.02.04	-
	NT\$ 220,000	NTD	USD	Floating	2005.02.27	-
	NT\$ 220,000	NTD	USD	Floating	2006.02.04	-

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

Market Risk

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

Liquidity Risk and Cash Flow Risk

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

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

Reporting of Derivative Instruments in the Financial Statements

As of December 31, 2005 and 2004, the receivable and payable derived from foreign exchange contracts are summarized below:

	2005	2004
Forward contract receivable	\$ 28,537,027	\$ 7,782,974
Less forward contract payable	<u>(28,328,464)</u>	<u>(7,696,557)</u>
Receivable on forward contracts, net	<u>\$ 208,563</u>	<u>\$ 86,417</u>

Foreign exchange (losses) gains of the Company from derivative financial instruments for the years ended December 31, 2005 and 2004 amounted to \$(37,373) thousand and \$263,878 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, 2005 and 2004 is summarized as follows:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 1,522,517	\$ 1,522,517	\$ 762,813	\$ 762,813
Short-term investments	663,517	664,801	925,051	929,963
Notes receivable	47,958	47,958	48,489	48,489
Notes receivable from affiliates	20	20	10,897	10,897
Accounts receivable	1,897,592	1,897,592	1,299,109	1,299,109
Accounts receivable from affiliates	26	26	1,364,727	1,364,727
Other receivable	387,819	387,819	242,960	242,960
Other current financial assets	244,377	244,377	132,594	132,594
Long-term investments	250,584	250,584	2,214,188	2,279,186
Other financial assets	811,861	811,861	344,372	344,372
Liabilities				
Short-term bank borrowings	3,433,147	3,433,147	635,337	635,337

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Short-term obligations	30,000	30,000	20,000	20,000
Notes payable	111,110	111,110	102,291	102,291
Accounts payable	2,641,078	2,641,078	1,283,861	1,283,861
Other payable	1,184,069	1,184,069	593,292	593,292
Other current financial liabilities	21,752	21,752	16,078	16,078
Long-term liabilities	1,716,400	1,716,400	1,823,949	1,823,949
Other financial debt	41,037	41,037	60,117	60,117

The fair value of derivative financial instruments as of December 31, 2005 and 2004 is summarized as follows:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Unsettled option transaction	\$ (13,935)	\$ (13,935)	\$ (23,810)	\$ (23,810)
Buy forward exchange asset	477,260	477,260	62,883	62,883
Sell forward exchange liability	(226,390)	(226,390)	(50,258)	(50,258)

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

- (a) Financial instruments classified as current assets and liabilities, cash and cash equivalents, notes receivable, notes receivable from affiliates, accounts receivable, accounts receivable from affiliates, short-term bank borrowings, short-term obligations, notes payable, accounts payable, and other financial instruments, etc., whose maturity dates are short-term recognize carrying value as fair value.
- (b) Short-term investments and long-term investments, for which market prices exist, are valued at market prices. Otherwise, available financial or other useful information is employed to compute fair value.
- (c) Long-term debt is stated at discount value.
- (d) Refundable deposits and advance deposits from customers, is stated at discount value.
- (e) The fair value of derivative financial instruments is the amounts which the Company expects to receive or pay if the Company stops the contracts according to the agreement at the balance sheet date. Generally, the amounts included unrealized gain or loss on outstanding contracts and most of them have reference value from financial organizations.