

Test Rite International Co. , Ltd.

2010 Annual Report

**Notice to readers**

***This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.***

Taiwan Stock Exchange Market Observation Post System:

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Test Rite's annual report is available at : <http://www.testitegroup.com>

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**Auditors**

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Auditors : YU, HONG-BIN, LU, CHI-CHANT

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**Corporate Website**

<http://www.testritigroup.com>

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## **I. Letter to Shareholders**

Dear shareholders,

Our 2010 parent level revenue stands at NT\$11.51 billion, representing a year-over-year increase of 8.3%. After-tax EPS more than doubled to NT\$1.01 compared to fiscal year 2009. As the North American economies lead the in recovery for developed countries in 2010, and because of the efforts of all employees, our trading business saw sustained level of growth. Principal trading business, which provides customers with full range of service solutions, saw annual increase of 8% over 2009 in terms of shipments. In addition, the Company continued to broaden its customer base via our Agency Business, with shipment volume accounting for 18.5% of total shipments in 2010 compared with 14% in 2009. The Company also successfully introduced the Joyoung brands to the Taiwan market, demonstrating the possible synergies of cooperating with various retail outlets, including our own TLW and Hola Taiwan retail channels. In the future, the Company will continue to look for opportunities to become the agent for brands looking to broaden their consumer reach in Greater China markets.

The Test Rite Group's consolidated sales totaled NT\$32.61 bn in 2010. The Group's retail arm is well positioned to benefit from the growth in the retail markets of China and Taiwan. On the back of a recovery in consumer confidence, our retail business in Taiwan saw 2010 annual sales increase by 11.2% year over year to NT\$15.04 billion. Specializing in the retail DIY and home improvement business, TLW continued to broaden the range of its products. In addition, it added one store and temporarily closed its Nangkan outlet in 2010. The outlet is being renovated and will reopen to include a DIY outlet, another HOLA store, and will lease remaining selling space to F&B operators, other furniture and home décor businesses. The new Nangkan outlet is scheduled to reopen in the third quarter of 2011. As of the end of 2010, TLW had a total of 23 DIY outlets in Taiwan. In addition, we entered home renovation market by introducing TR Design+, TR Home Service, and TR PLUS services, with the aim to provide a full range of services of our customers. HOLA TW, with a focus on the home decoration retail business, added 5 outlets in 2010, with 4 of them located within a DIY outlet of TLW. As of the end of 2010, there were 18 HOLA outlets. We also opened 9 HOLA stores in China in 2010 and as of year end 2010 we operated 27 HOLA China stores in major cities such as Shanghai, Beijing, Chengdu and Shenzhen. New stores contributed to a strong sales growth rate, with annual sales totaling RMB\$640 million in 2010, a 43% year on year increase over 2009.

Tong Lung Metal Industry (TLM), a subsidiary of Test-Rite Group, saw a modest recovery of demand for locksets in 2010 as the state of U.S. housing market remains fluid. In 2010, TLM's revenue reached NT\$3.07 billion, an increase of approximately 30% on 2009. The company continued to invest in its production capacity and intends to shift more production to the Philippines factory in Subic Bay. Currently the Philippines facilities can produce 1 million units per month. The Subic Bay factory enjoys several advantages compared to other lock manufacturers in elsewhere, particularly in China. These include reduced or exempt duties on products exported to the United States and relatively low labor costs.

Below is our detailed 2010 operating result, 2010 business plan summary, and future business strategy. We have also highlighted possible impacts from changes in government regulations and global macro economic environment and external competition in the final section.

## 1. Operating result for 2010

### i. Operating result for 2010:

(NT\$ mn)

| Item                        | 2010   | 2009   | YoY change amount | YoY change (%) |
|-----------------------------|--------|--------|-------------------|----------------|
| Net sales                   | 11,514 | 10,628 | 886               | 8.3            |
| COGS                        | 9,281  | 8,667  | 614               | 7.1            |
| Gross profit                | 2,233  | 1,961  | 272               | 13.9           |
| Operating Expense           | 2,011  | 1,794  | 217               | 12.1           |
| Operating profit            | 222    | 167    | 55                | 32.9           |
| Non-operating profit (loss) | 394    | (1)    | 395               | N.A.           |
| Net profit before tax       | 617    | 166    | 451               | 271.7          |
| Net profit after tax        | 487    | 137    | 350               | 255.5          |

### ii. Analysis of balance sheet & profitability

| Item          | Fiscal Year                    | 2010   | 2009   | YoY change(%) |
|---------------|--------------------------------|--------|--------|---------------|
| Balance sheet | Total liability to total asset | 56.5%  | 56.9%  | (0.7)         |
|               | Current ratio                  | 227.8% | 205.8% | 10.7          |
| Profitability | ROE                            | 7.9%   | 2.4%   | 229.2         |
|               | Net margin                     | 4.2%   | 1.3%   | 223.1         |
|               | EPS                            | 1.01   | 0.31   | 225.8         |

## 2. 2011 business plan and future development strategy

### 1. Business plan and management team's guiding principles:

- A. Meticulously cultivate and deepen relationship for existing trading customers
- B. Leverage our innovative capabilities to provide differentiating products and improve full range of sourcing services.
- C. Aggressively expand Agency Business.
- D. Continue to integrate operations of trading and retail subsidiaries to enhance synergy.

### 2. Future development strategy:

- A. Aggressively expand the scope and identify targets for Agency Business.
- B. Develop emerging markets opportunities in Southeast Asia and India.
- C. Further penetrate into the China's retail market through brand licensing.

### **3. Potential influence from external competition, regulation and macro economic environment**

Faced with a rapidly changing and competitive landscape, Test-Rite has leveraged its +30 years of success in the trading business while continuing to strengthen our product offerings for our trading customers. These services, encompass product and packaging design, logistics, and storage/warehousing capabilities, enable Test-Rite to provide a Total Solution service that we believe is necessary to further strength or role within the supply to chain to global retail operators. As a result, Test-Rite is able to facilitate cooperative efficiency between our customers and suppliers and create value-added services for our trading partners.

Recently, Taiwanese and Chinese authorities adopted policies aimed at curbing the overheated real estate markets. These policies may have potential impact on our retail businesses in the near-term, but we remain optimistic about our growth prospects of our retail channels. Taiwanese consumers will likely to continued seek to improve their standard of living via upgrades/replacement of home related products, while China's 12th 5-Year Plan is aimed at tipping the growth drivers to a more domestic/consumption driven economy. We see no shortage of growth opportunities for both our trading and retail businesses.

Lastly, all of our staff at Test Rite Group will spare no efforts to effectively plan, and manage our trading, retail and other investment businesses in an honest, sincere and dedicated manner, with the objective to enhance the return on shareholder equity (ROE). We, on behalf of all the employees at Test-Rite, would like to take this opportunity to thank our shareholders for your continued support and encouragement.

Sincerely yours,

Chairman  
Judy Lee

CEO & President  
Sophia Tong

## II. Company Profile

**2.1 Date of Incorporation:** August 10th, 1978

### 2.2 Company History

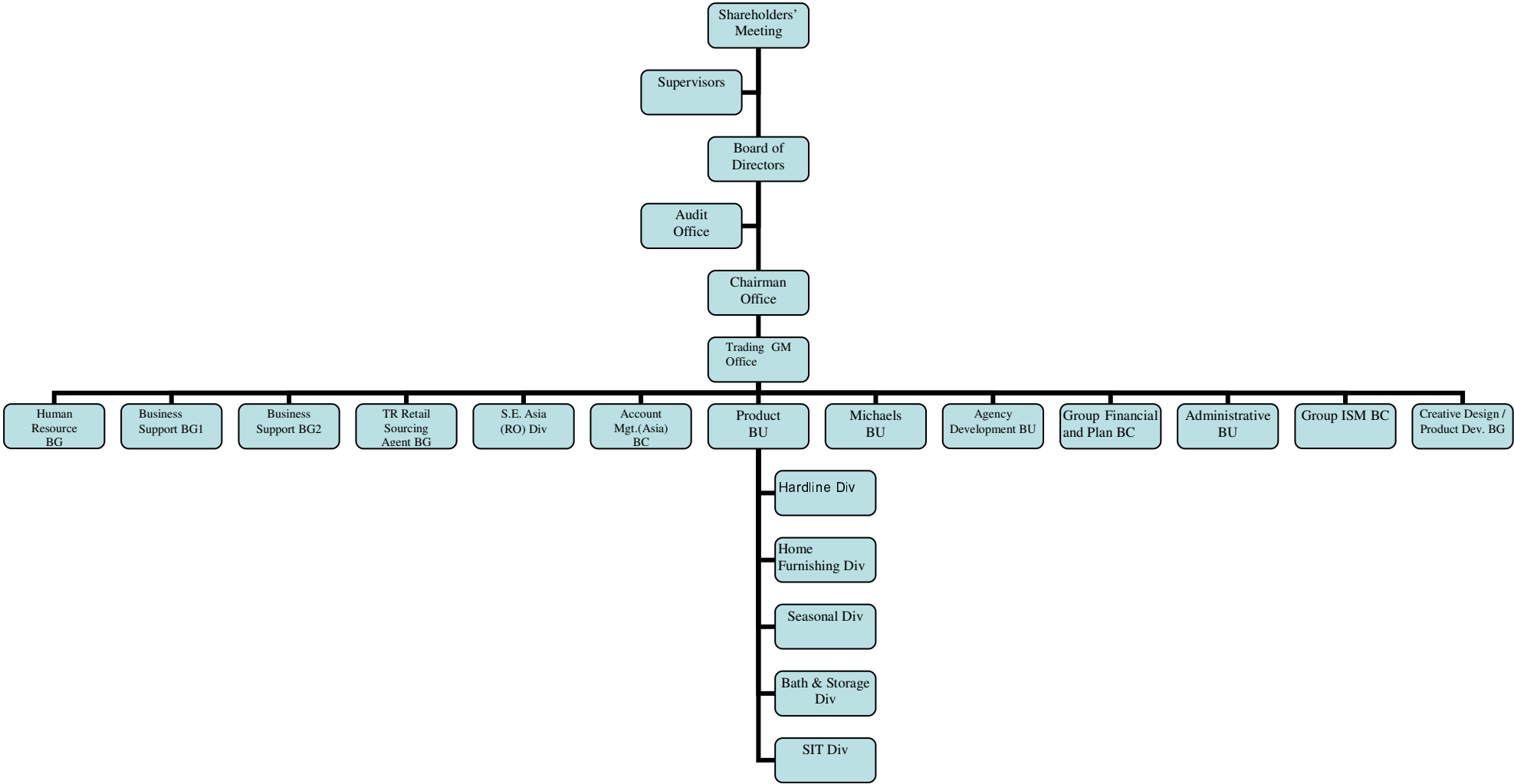
| Year    | Milestones  |
|---------|---|
| 1978-91 | Establishment and Growth  |
| 1988-00 | “Best Supplier Award from Wal-Mart”   |
| 1993    | Test Rite IPO (2908TT) –Taiwan Stock Exchange   |
| 1996-98 | Launch of Retail Business<br>B&Q TLW Taiwan 50-50 JV with Kingfisher<br>HOLA –“House of Living Art”                 |
| 2000    | Packing facilities established in Shanghai and Shenzhen   |
| 2001    | Named “The Best 200 Small Companies” by Forbes  |
| 2004    | Retail: Inception of HOLA China   |
| 2006    | HOLA (2921TT) IPO –Taiwan OTC Exchange<br>Acquisition of Tong-Lung Metal (OTC listed 8705 TT)                       |
| 2007    | Nei-Hu HQ Building Sale-and-Leaseback<br>Purchase of Kingfisher's 50% joint venture stake of TLW Taiwan (US\$100mn) |
| 2009    | 4-in-1 Merger of Taiwan Retail channels: TLW (DIY), HOLA, Freer, and HOLA Casa.                                     |
| 2010    | Accelerate pace of store openings of HOLA China<br>Canceled 14.8mn treasury shares                                  |



III. Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



### 3.1.2 Major Corporate Functions

| Department                        | Functions  |
|-----------------------------------|--|
| Chairman Office                   | To foster the smooth operation of the Group and strengthen business management mechanisms, to assist the chairperson in day-to-day administration of the Company, to arrange business schedules, and to carry out projects   |
| Trading GM Office                 | To oversee work including the planning, formulation, and rectification of the Company's legal and administrative regulations and to carry out projects for improvement   |
| Audit Office                      | Investigation and assessment of the Company's internal control; business and employee performance evaluation of all departments  |
| Group Financial and Planning BC   | Fund allocation, control of bank credit balance, establishment of banking relationships, shareholder services, and related matters; Accounting management, profit and loss calculations, management analysis and budgeting as well as financial planning and related matters for the Group |
| Administrative BU                 | Performance of administrative work including general administration  |
| Group ISM BC                      | Implementation and planning of computer hardware equipment for the Group and software planning, program design, and implementation for internal corporate applications   |
| Human Resource BG                 | Personnel administration, human resources development, education and training  |
| Business Support BG1              | Support for quality assurance-related operations of line units   |
| Business Support BG2              | Support for shipping, logistics management and other related operations of line units  |
| TR Retail Sourcing Agent BG       | Development and planning for retail markets in China; providing quality and timely customer services   |
| S.E. Asia (RO) Div                | Development of new customers in Southeast Asia, expansion of international business in multinational markets, and increasing the global exposure of the Company  |
| Account Mgt.(Asia) BC             | Enhancing customer service, devoting more resources to customers to improve customer relationships and gain additional competitive advantage   |
| Hardline Div                      | Planning, development, design, procurement and sales of hand tools and household hardware products; providing customers with information and services  |
| Home Furnishing Div               | Planning, development, design, procurement and sales of household products and appliances; providing customers with information and services   |
| Seasonal Div                      | Planning, development, design, procurement and sales of seasonal products; providing customers with information and services   |
| Bath & Storage Div                | Planning, development, design, procurement and sales of non-U.S. home improvement products; providing customers with information and services  |
| SIT Div                           | Planning, development, design, procurement and sales of stationery, gifts, indoor furniture and IT products; providing customers with information and services   |
| Michaels BU                       | Searching for and design and quality control of Michaels' authorized products and agency business  |
| Agency Development BU             | Promotion of agency business; providing customers with information and services  |
| Creative Design / Product Dev. BG | Provide research and development designs, artwork, and marketing strategies for new products   |

## 3.2 Directors, Supervisors and Management Team

### 3.2.1 Directors and Supervisors

As of April 19, 2011

| Title    | Name           | Date Elected | Term (Years) | First Date Elected | Shareholding when Elected |              | Current Shareholding |      | Spouse & Minor Shareholding |      | Shareholding by Nominee Arrangement |   | Experience ( Education )  | Other Position | Executives, Directors or Supervisors who are spouses or within two degrees of kinship |                      |                  |
|----------|----------------|--------------|--------------|--------------------|---------------------------|--------------|----------------------|------|-----------------------------|------|-------------------------------------|---|---|----------------|---|----------------------|------------------|
|          |                |              |              |                    | Shares                    | %            | Shares               | %    | Shares                      | %    | Shares                              | % |   |                | Title   | Name                 | Relation         |
| Chairman | Ms. Judy Lee   | 98.06.16     | 3            | 72.07.04           | 33,834,515                | 8.12         | 36,050,614           | 6.98 | 42,682,905                  | 8.27 | -                                   | - | President of Test Rite Int'l Co., Ltd. ; Department of Bank and Insurance/Tamkang University  | Note 1         | Director  | Tony Ho<br>Robin Ho  | Family<br>Family |
| Director | Mr. Tony Ho    | 98.06.16     | 3            | 72.07.04           | 35,454,353                | 8.51         | 42,682,905           | 8.27 | 36,050,614                  | 6.98 | -                                   | - | Chairman of Test Rite Int'l Co., Ltd. ; Chairman of Home Furnishings Co., Ltd. ; Department of Philosophy/Fujen Catholic University | Note 2         | Director  | Judy Lee<br>Robin Ho | Family<br>Family |
| Director | Mr. George Hsu | 98.06.16     | 3            | 92.06.20           | 1,090,916<br>162,851      | 0.26<br>0.04 | 1,060,919            | 0.21 | 3,378                       | 0.00 | -                                   | - | GM of the Asia-Pacific Region of Rockwell International Corp ; Chief of staff of Acer Computer Co.,Ltd. ; Naval Academy             | Note 3-        | -   | -                    | -                |
| Director | Ms. Robin Ho   | 99.06.15     | 2            | 99.06.15           | 643,431                   | 0.13         | 973,431              | 0.19 | -                           | -    | -                                   | - | AVP of Test Rite Int'l Co., Ltd. ; MBA of Fujen Catholic University Graduate Institute of Management                                | Note 4         | Director  | Tony Ho<br>Judy Lee  | Family<br>Family |

| Title    | Name  | Date Elected | Term<br>(Years) | First<br>Date<br>Elected | Shareholding<br>when Elected |              | Current<br>Shareholding |              | Spouse & Minor<br>Shareholding |   | Shareholding by<br>Nominee<br>Arrangement |   | Experience<br>( Education )  | Other<br>Position | Executives, Directors or<br>Supervisors who are<br>spouses or within two<br>degrees of kinship |      |          |
|----------|---|--------------|-----------------|--------------------------|------------------------------|--------------|-------------------------|--------------|--------------------------------|---|---|---|--|-------------------|--|------|----------|
|          |   |              |                 |                          | Shares                       | %            | Shares                  | %            | Shares                         | % | Shares                                    | % |  |                   | Title  | Name | Relation |
| Director | Li-Hsiung Co., Ltd.<br>Representative:<br>Ms. Lee,<br>Ai-Chen       | 98.06.16     | 3               | 95.06.09                 | 16,311,088<br>1,162,444      | 3.44<br>0.25 | 13,022,769<br>1,099,880 | 2.52<br>0.21 | -                              | - | -   | - | Director of ShiFu industry Co., Ltd. ;<br>Commercial Senior High School  | Note 5            | -  | -    | -        |
| Director | Li-Hsiung Co., Ltd.<br>Representative:<br>Mr. Huang,<br>Chung-Hsing | 98.06.16     | 3               | 98.06.16                 | 16,311,088<br>-              | 3.44<br>-    | 13,022,769<br>-         | 2.52<br>-    | -                              | - | -   | - | Associate Dean of Business Administration<br>College of National Taiwan University 、<br>CEO of EMBA of National Taiwan University 、<br>Director of school of Professional and Continuing Studies<br>of National Taiwan University ; Ph.D. Business Administration, University of Texas at Austin | Note 6            | -  | -    | -        |
| Director | Li-Hsiung Co., Ltd.<br>Representative:<br>Mr. Huang,<br>Hsin-Hsien  | 98.06.16     | 3               | 98.06.16                 | 16,311,088<br>-              | 3.44<br>-    | 13,022,769<br>-         | 2.52<br>-    | -                              | - | -   | - | Shihlin District Court Judge 、<br>Taoyuan District Court Judge 、<br>Chiayi District Court Judge ; BL, Soochow University   | Note 7            | -  | -    | -        |

| Title      | Name   | Date Elected | Term<br>(Years) | First<br>Date<br>Elected | Shareholding<br>when Elected |           | Current<br>Shareholding |           | Spouse & Minor<br>Shareholding |   | Sharehol<br>ding by<br>Nominee<br>Arrange<br>ment |   | Experience<br>( Education )  | Other<br>Positio<br>n | Executives, Directors or<br>Supervisors who are<br>spouses or within two<br>degrees of kinship |      |          |
|------------|--|--------------|-----------------|--------------------------|------------------------------|-----------|-------------------------|-----------|--------------------------------|---|---|---|--|-----------------------|--|------|----------|
|            |  |              |                 |                          | Shares                       | %         | Shares                  | %         | Shares                         | % | Sha<br>res  | % |  |                       | Title  | Name | Relation |
| Supervisor | Tsai-Chi Co.,<br>Ltd.<br>Representativ<br>e:<br>Mr. Lai,<br>Yung-Chi     | 98.06.16     | 3               | 92.06.20                 | 11,436,489<br>-              | 2.74<br>- | 31,362,87<br>3<br>-     | 6.07<br>- | -                              | - | -   | - | Research Assistant<br>Treasury Tax<br>Commission 、<br>Management<br>activities committee<br>chairman of<br>Chinese<br>Knowledge<br>Association ; Master<br>of Financial<br>Research, National<br>Chengchi<br>University            | Note 8                | -  | -    | -        |
| Supervisor | Tsai-Chi Co.,<br>Ltd.<br>Representativ<br>e:<br>Mr. Liao,<br>Hsueh-Hsing | 98.06.16     | 3               | 92.06.20                 | 11,436,489<br>-              | 2.74<br>- | 31,362,87<br>3<br>-     | 6.07<br>- | -                              | - | -   | - | Consultant,<br>Executive Yuan 、<br>Director of the<br>National<br>Association of<br>Bar 、 Supervisor of<br>the Taipei Bar<br>Association 、<br>Taiwan Law<br>Society Director /<br>Secretary ; BL,<br>National Taiwan<br>University | Note 9                | -  | -    | -        |

Note 1 : Vice Chairman of Tong Lung Metal Industry Co., Ltd. 、 Director of Test Rite Retail Co., Ltd. 、 Director of Test-Rite Home Service Co., Ltd. 、 Director of Hola Homefurnishings Co., Ltd. 、 Director of Homy Homefurnishings Co., Ltd. 、 Director of Freer Inc. 、 Director of Chung Cin Enterprise Co., Ltd. 、 Chairman of Tony Investment Co., Ltd. 、 Director of Lih Teh International Co., Ltd. 、 Director of Lih Chiou Co., Ltd. 、 Director of Fusion International Distribution Inc. 、 Director of B&S Link Co., Ltd. 、 Director of Coalue Consultant Co., Ltd. 、 Chairman of Test Rite Business Development Corporation(China) Co., Ltd. 、 Chairman of Jiashan Te-Cheng Wood Industrial Co., Ltd. 、 Chairman of B&S Link (Shanghai) Co., Ltd. 、 Chairman of

HOLA Shanghai Consultant Co., Ltd. ∙ Chairman of HOLA Shanghai Retail & Trading Co., Ltd. ∙ Chairman of HOLA Beijing Retail & Trading Co., Ltd. ∙ Chairman of HOLA Shanghai Living Art Retailing Co., Ltd. ∙ Chairman of Light Up Shanghai Retailing Co., Ltd. ∙ Chairman of HOLA Hangzhou Retailing Co., Ltd. ∙ Chairman of HOLA Shanghai Retail & Trading Ltd. ∙ Chairman of Energy Retailing Co., Ltd. ∙ Chairman of Test Rite (China) Investment Co., Ltd. ∙ Director of Test Rite Int'l (U.S.) Co., Ltd. ∙ Director of Test Rite Products Corp. ∙ Director of Master Design, Inc. ∙ Director of Compass Home, Inc. ∙ Director of Homezone International Corporation ∙ Director of LifeStyle Trends, LLC ∙ Director of Rollabind, LLC ∙ Director of Test Rite Int'l (Canada) Ltd. ∙ Director of Test Rite de Mexico, S.A. de C.V. ∙ Director of Test Rite PTE Ltd. ∙ Director of Test Rite Products Ltd. ∙ Director of Test Rite Viet Nam Co., Ltd. ∙ Director of Test-Rite (UK) Ltd. ∙ Director of Test Rite Int'l (Australia) Pty. ∙ Director of Test Rite South American Co., Ltd. ∙ Director of Hwa Hong International Co., Ltd. ∙ Director of Rui Feng International Co., Ltd. ∙ Director of TRS Investment Company Limited ∙ Director of Fortune Miles Trading Inc.

Note 2 : Chairman of Tong Lung Metal Industry Co., Ltd. ∙ Chairman of Test Rite Retail Co., Ltd. ∙ Director of Test-Rite Home Service Co., Ltd. ∙ Chairman of HOLA Homefurnishings Co., Ltd. ∙ Chairman of Homy Homefurnishings Co., Ltd. ∙ Chairman of Freer Inc. ∙ Chairman of Chung Cin Enterprise Co., Ltd. ∙ Chairman of Chung Cin Interior Design / Construction Co., Ltd. ∙ Chairman of Lih Teh International Co., Ltd. ∙ Chairman of Lih Chiou Co., Ltd. ∙ Chairman of Fusion International Distribution Inc. ∙ Chairman of Quality Master Co., Ltd. ∙ Chairman of B&S Link Co., Ltd. ∙ Director of Coalue Consultant Co., Ltd. ∙ Director of Test Rite Int'l (U.S.) Co., Ltd. ∙ Director of Test Rite Products Corp. ∙ Director of Master Design, Inc. ∙ Director of Homezone International Corporation ∙ Director of LifeStyle Trends, LLC ∙ Director of Rollabind, LLC ∙ Director of Test Rite Int'l (Canada) Ltd. ∙ Director of Test Rite Int'l (Australia) Pty. ∙ Director of Test Rite PTE Ltd. ∙ Director of Test Rite Products Ltd. ∙ Director of Landia Home(HK) Limited ∙ Director of Perfect Group International Limited ∙ Director of TOPPIN(H.K.)LIMITED ∙ Director of Test Rite South American Co., Ltd. ∙ Director of Test Rite Trading Co., Ltd. ∙ Director of Test Rite Retailing Co., Ltd. ∙ Director of B&S Link Corporation ∙ Director of Test-Rite Star Co., Ltd. ∙ Director of Test Rite International Investment Co., Ltd. °

Note3 : Director of Tong Lung Metal Industry Co., Ltd. ∙ Director of Chung Cin Enterprise Co., Ltd. ∙ Director of B&S Link Co., Ltd. ∙ Director of Lih Teh International Co., Ltd. ∙ Director of Lih Chiou Co., Ltd. ∙ Director of Fusion International Distribution Inc.

Note 4 : Director of Tong Lung Metal Industry Co., Ltd. ∙ Director of Test Rite Retail Co., Ltd. ∙ Director of Test-Rite Home Service Co., Ltd. ∙ Chairman of Coalue Consultant Co., Ltd. ∙ Director of Test Rite Business Development Corporation (China) Co., Ltd. ∙ Director of Jiashan Te-Cheng Wood Industrial Co., Ltd. ∙ Director of B&S Link (Shanghai) Co., Ltd. ∙ Director of HOLA Shanghai Consultant Co., Ltd. ∙ Director of HOLA Shanghai Retail & Trading Co., Ltd. ∙ Director of HOLA Beijing Retail & Trading Co., Ltd. ∙ Director of HOLA Shanghai Living Art Retailing Co., Ltd. ∙ Director of Light Up Shanghai Retailing Co., Ltd. ∙ Director of HOLA Hangzhou Retailing Co., Ltd. ∙ Director of HOLA Shanghai Retail & Trading Ltd. ∙ Director of Energy Retailing Co., Ltd. ∙ Director of Test Rite (China) Investment Co., Ltd. ∙ Director of Rollabind, LLC ∙ Director of Test Rite Int'l (Australia) Pty. ∙ Director of Test-Rite (UK) Ltd. ∙ Director of Citysource Inc. ∙ Director of Test Rite de Mexico, S.A. de C.V.

Note 5 : Chairman of Up Master Investment Co., Ltd. ∙ Chairman of Li-Hsiung Co., Ltd.

Note 6 : Independent supervisor of Delta Electronics Inc. ∙ Independent director of ShareHope Medicine Inc.

Note 7 : Director of Jian Yuan law firm ∙ Director of Jinghua Society Cultural Foundation ∙ Supervisor of Sunflowerwithme association ∙ Legal Advisor of Taipei City Police Department Juvenile Affair Division

Note 8 : Partner and Director of BAKER TILLY CLOCK & CO. ∙ Supervisor of Tong Lung Metal Industry Co., Ltd. ∙ Supervisor of Test Rite Retail Co., Ltd. ∙ Supervisor of Test-Rite Home Service Co., Ltd.

Note 9 : Lawyer of Zhao Ming law firm ∙ Director of Muguangwen Education Foundation ∙ Director of Youngsun Culture & Education Foundation ∙ Director of Chew Foundation ∙ consultant of Yilan County Government

**Major shareholders of the institutional shareholders**

As of April 19, 2011

| Name of institutional shareholders | Major shareholders of the institutional shareholders                          |
|------------------------------------|---|
| Li-Hsiung Co., Ltd.                | Up Master Investment Co., Ltd.100%  |
| Tsai-Chi Co., Ltd.                 | Tony Ho 27.65%、Judy Lee 28.14%、Robin Ho 26.58%、Joyce Ho 11.38%、Kelly Ho 6.24% |

**Major shareholders of the major shareholders that are juridical persons**

As of April 19,2011

| Name of juridical persons      | Major shareholders of the juridical persons                                |
|--------------------------------|--|
| Up Master Investment Co., Ltd. | Tony Ho 37.41%、Judy Lee 41.67%、Robin Ho 10.8%、Joyce Ho 7.3%、Kelly Ho 2.81% |

# Professional qualifications and independence analysis of directors and supervisors

As of April 19, 2011

| Name  | Criteria | Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience   |   |  | Independence Criteria(Note) |   |   |   |   |   |   |   |   |    | Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director |
|---|----------|--|---|--|-----------------------------|---|---|---|---|---|---|---|---|----|---|
|   |          | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University | A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company | Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company | 1                           | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |   |
| Ms. Judy Lee  |          |  | V   |  |                             |   |   |   | V |   | V |   | V | V  | 0   |
| Mr. Tony Ho   |          |  | V   |  |                             |   |   |   | V |   | V |   | V | V  | 0   |
| Mr. George Hsu  |          |  | V   |  |                             |   | V | V | V |   | V | V | V | V  | 0   |
| Ms. Robin Ho  |          |  | V   |  |                             |   | V |   |   |   | V |   | V | V  | 0   |
| Li-Hsiung Co., Ltd.<br>Representative: Ms. Lee, Ai-Chen       |          |  | V   |  |                             |   | V | V |   |   | V | V | V |    | 0   |
| Li-Hsiung Co., Ltd.<br>Representative: Mr. Huang, Chung-Hsing | V        |  | V   |  | V                           | V | V | V | V | V | V | V | V |    | 2   |
| Li-Hsiung Co., Ltd.<br>Representative: Mr. Huang, Hsin-Hsien  |          | V  | V   |  | V                           | V | V | V | V | V | V | V | V |    | 0   |
| Tsai-Chi Co., Ltd.<br>Representative: Mr. Lai, Yung-Chi       |          | V  | V   |  | V                           |   | V | V | V |   |   | V | V |    | 0   |
| Tsai-Chi Co., Ltd.<br>Representative: Mr. Liao, Hsueh-Hsing   |          | V  | V   |  | V                           | V | V | V | V | V |   | V | V |    | 0   |

Note : Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount



- of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
  5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
  6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
  7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
  8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
  9. Not been a person of any conditions defined in Article 30 of the Company Law.
  10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### 3.2.2 Management Team

April 19, 2011

| Title     | Name           | Date Effective | Shareholding |       | Spouse & Minor Shareholding |       | Shareholding by Nominee Arrangement |       | Experience (Education)   | Other Position | Managers who are Spouses or Within Two Degrees of Kinship |          |          |
|-----------|----------------|----------------|--------------|-------|-----------------------------|-------|-------------------------------------|-------|--|----------------|---|----------|----------|
|           |                |                | Shares       | %     | Shares                      | %     | Shares                              | %     |  |                | Title   | Name     | Relation |
| President | Sophia Tong    | 3.23.2009      | 875,000      | 0.17% | 0                           | 0.00% | 0                                   | 0.00% | GM of IBM Taiwan ; BA, National Taiwan University  | Note 1         | —   | —        | —        |
| VP        | John Peng      | 9.1.1998       | 717,805      | 0.14% | 1,074,073                   | 0.21% | 0                                   | 0.00% | Product manager of Test Rite Int'l Co., Ltd. ; Yangmei Senior high school                | Note 2         | —   | —        | —        |
| VP        | Peter Dong     | 1.1.2003       | 222,895      | 0.04% | 0                           | 0.00% | 0                                   | 0.00% | AVP of Test Rite Int'l Co., Ltd. ; BC, Fujen Catholic University                         | —              | —   | —        | —        |
| VP        | Alfred Chang   | 10.8.2005      | 397,567      | 0.08% | 0                           | 0.00% | 0                                   | 0.00% | AVP of Test Rite Int'l Co., Ltd. ; BA, National Cheng Kung University                    | —              | —   | —        | —        |
| VP        | Hannis Chang   | 6.1.2006       | 435,154      | 0.08% | 0                           | 0.00% | 0                                   | 0.00% | Senior finance manager of HannStar Display Corporation ; MBA, National Taiwan University | —              | —   | —        | —        |
| VP        | Lawrence Wu    | 3.1.2007       | 102,351      | 0.02% | 0                           | 0.00% | 0                                   | 0.00% | AVP of B&Q International Co., Ltd. ; Keelung Maritime Vocational High School             | —              | —   | —        | —        |
| VP        | Jane Peng      | 3.1.2008       | 30,000       | 0.01% | 0                           | 0.00% | 0                                   | 0.00% | Chief Project Director of IBM Taiwan ; MBA, University of Houston                        | —              | —   | —        | —        |
| VP        | Gillian Joe    | 7.21.2008      | 10,000       | 0.00% | 0                           | 0.00% | 0                                   | 0.00% | Managing consultant of IBM Taiwan ; BS ,Oklahoma City State University College           | —              | —   | —        | —        |
| VP        | Angeli Chan    | 7.21.2008      | 0            | 0.00% | 0                           | 0.00% | 0                                   | 0.00% | MFA, California Institute of Fashion Design Business                                     | —              | —   | —        | —        |
| VP        | Bob Yueh       | 3.1.2009       | 13,053       | 0.00% | 0                           | 0.00% | 0                                   | 0.00% | AVP of Test Rite Int'l Co., Ltd. ; BS, Feng Chia University                              | —              | —   | —        | —        |
| VP        | Edward Kao     | 3.1.2009       | 421,852      | 0.08% | 0                           | 0.00% | 0                                   | 0.00% | AVP of Test Rite Int'l Co., Ltd. ; MBA, New Jersey Institute of Technology               | —              | —   | —        | —        |
| VP        | Paul Wang      | 3.1.2009       | 153,684      | 0.03% | 0                           | 0.00% | 0                                   | 0.00% | AVP of Test Rite Int'l Co., Ltd. ; Yudah Commercial High School                          | —              | —   | —        | —        |
| VP        | Tracy Tsai     | 3.1.2009       | 133,138      | 0.03% | 0                           | 0.00% | 0                                   | 0.00% | AVP of Test Rite Int'l Co., Ltd. ; BC, Chinese Culture University                        | —              | —   | —        | —        |
| VP        | Marshall Cheng | 3.11.2009      | 0            | 0.00% | 0                           | 0.00% | 0                                   | 0.00% | MBA, State University of Southern California   | —              | —   | —        | —        |
| VP        | Robin Ho       | 5.1.2009       | 973,431      | 0.19% | 0                           | 0.00% | 0                                   | 0.00% | AVP of Test Rite Int'l Co., Ltd. ; MBA, Fujen Catholic University                        | Note 3         | VP  | Kelly Ho | Family   |

|     |                  |            |         |       |        |       |   |       |   |        |    |          |        |
|-----|------------------|------------|---------|-------|--------|-------|---|-------|---|--------|----|----------|--------|
| VP  | James Pong       | 8.21.2009  | 0       | 0.00% | 0      | 0.00% | 0 | 0.00% | GM of IDS ; BS, Tunghai University  | —      | —  | —        | —      |
| VP  | Eva Ho           | 10.15.2009 | 250,000 | 0.05% | 0      | 0.00% | 0 | 0.00% | CFO of Regional Service Group of Arrow Asia Pac Ltd ; MBA, University of Denver                       | Note 4 | —  | —        | —      |
| VP  | Spencer Lee      | 1.1.2010   | 0       | 0.00% | 50,000 | 0.01% | 0 | 0.00% | Senior manager of IBM Taiwan ; BC of National Taiwan University                                       | —      | —  | —        | —      |
| VP  | James Lo         | 1.25.2010  | 0       | 0.00% | 0      | 0.00% | 0 | 0.00% | VP of Administration and Finance of Winbond Electronics(China) ; MBA, National Sun Yat-sen University | —      | —  | —        | —      |
| VP  | Winnie Teng      | 4.20.2010  | 0       | 0.00% | 0      | 0.00% | 0 | 0.00% | Marketing AVP of B&Q Int'l Co., Ltd. ; BA, Fujen Catholic University                                  | —      | —  | —        | —      |
| VP  | CC Fan           | 6.10.2010  | 0       | 0.00% | 0      | 0.00% | 0 | 0.00% | Principal Consultant Of IBM Taiwan ; MS, The University of North Alabama                              | —      | —  | —        | —      |
| VP  | Kelly Ho         | 8.2.2010   | 331,243 | 0.06% | 0      | 0.00% | 0 | 0.00% | Chairman special assistant of Test Rite Int'l Co., Ltd. ; MBA, Massachusetts Institute of Technology  | Note 5 | VP | Robin Ho | Family |
| AVP | Linda Lin        | 1.1.2003   | 135,442 | 0.03% | 0      | 0.00% | 0 | 0.00% | Senior manager of Test Rite Int'l Co., Ltd. ; Ming Chuan College                                      | —      | —  | —        | —      |
| AVP | Alex Yu          | 2.1.2005   | 37,401  | 0.01% | 0      | 0.00% | 0 | 0.00% | Manager of SAMPO Co., Ltd. ; BS, Chung Yuan Christian University                                      | —      | —  | —        | —      |
| AVP | Lancy Wu         | 5.1.2007   | 45,642  | 0.01% | 0      | 0.00% | 0 | 0.00% | Senior manager of Test Rite Int'l Co., Ltd. ; Taipei College  | —      | —  | —        | —      |
| AVP | Shelley Chen     | 5.1.2007   | 8,661   | 0.00% | 0      | 0.00% | 0 | 0.00% | Senior manager of Test Rite Int'l Co., Ltd. ; Ming Chuan College                                      | —      | —  | —        | —      |
| AVP | Monica Chen      | 6.15.2009  | 132,114 | 0.03% | 0      | 0.00% | 0 | 0.00% | Senior manager of Test Rite Int'l Co., Ltd. ; Shih Chien College                                      | —      | —  | —        | —      |
| AVP | Frank JF Chang   | 10.23.2009 | 983     | 0.00% | 0      | 0.00% | 0 | 0.00% | Senior manager of B&Q International Co., Ltd. ; BS, Chung Yuan Christian University                   | —      | —  | —        | —      |
| AVP | Jack Chang       | 4.1.2010   | 168,000 | 0.03% | 0      | 0.00% | 0 | 0.00% | Yuanta Research (H.K.) Ltd./Senior Analyst Babson College(MBA)  | —      | —  | —        | —      |
| AVP | Constance Chuang | 4.15.2010  | 0       | 0.00% | 0      | 0.00% | 0 | 0.00% | Senior manager of Test Rite Int'l Co., Ltd. ; BA, Fujen Catholic University                           | —      | —  | —        | —      |

|     |             |            |         |       |        |       |   |       |   |   |   |   |   |
|-----|-------------|------------|---------|-------|--------|-------|---|-------|---|---|---|---|---|
| AVP | Eric Chang  | 6.1.2010   | 185,000 | 0.04% | 0      | 0.00% | 0 | 0.00% | Senior manager of Test Rite Int'l Co., Ltd. ; MBA, Tunghai University | — | — | — | — |
| AVP | Arthur Chen | 10.18.2010 | 40,000  | 0.01% | 10,000 | 0.00% | 0 | 0.00% | Acer China / Director East China ; MBA, George Washington University  | — | — | — | — |
| AVP | Gino Chen   | 11.15.2010 | 0       | 0.00% | 0      | 0.00% | 0 | 0.00% | CEO of GINO International Marketing Co., Ltd. ; MBA, HEC Paris        | — | — | — | — |

Note :

- 1 : Director and GM of Test Rite Retail Co., Ltd. 、 Director of Test-Rite Home Service Co., Ltd. 、 Director of Tong Lung Metal Industry Co., Ltd. 、 Director of Test-Rite (UK) Ltd.
- 2 : Director of Test Rite Business Development Corporation(China) Co., Ltd. 、 Director of Jiashan Te-Cheng Wood Industrial Co., Ltd. 、 Director of B&S Link (Shanghai) Co., Ltd. 、 Director of Energy Retailing Co., Ltd. 、 Director of Test-Rite Product (Hong Kong) Ltd. Ningbo Office 、 Director of Test Rite (China) Investment Co., Ltd. °
- 3 : Director of Tong Lung Metal Industry Co., Ltd. 、 Director of Test Rite Retail Co., Ltd. 、 Director of Test-Rite Home Service Co., Ltd. 、 Chairman of Coalue Consultant Co., Ltd. 、 Director of Test Rite Business Development Corporation (China) Co., Ltd. 、 Director of Jiashan Te-Cheng Wood Industrial Co., Ltd. 、 Director of B&S Link (Shanghai) Co., Ltd. 、 Director of HOLA Shanghai Consultant Co., Ltd. 、 Director of HOLA Shanghai Retail & Trading Co., Ltd. 、 Director of HOLA Beijing Retail & Trading Co.,Ltd. 、 Director of HOLA Shanghai Living Art Retailing Co., Ltd. 、 Director of Light Up Shanghai Retailing Co., Ltd. 、 Director of HOLA Hangzhou Retailing Co., Ltd 、 Director of HOLA Shanghai Retail & Trading Ltd. 、 Director of Energy Retailing Co., Ltd. 、 Director of Test Rite (China) Investment Co., Ltd. 、 Director of Rollabind, LLC 、 Director of Test Rite Int'l (Australia) Pty. 、 Director of TEST-RITE (UK) LTD. 、 Director of CITYSOURCE INC. 、 Director of Test Rite de Mexico, S.A. de C.V.
- 4 : Director of Test-Rite (UK) Ltd.
- 5 : Director of Test Rite Retail Co., Ltd. 、 Director of HOLA Homefurnishings Co., Ltd. 、 Director of Homy Homefurnishings Co., Ltd. 、 Director of Freer Inc.

### 3.2.3 Remuneration of Directors, Supervisors, President, and Vice President

#### Remuneration of Directors

As of Dec. 31, 2010 : Unit: NT\$ thousands

| Title    | Name   | Remuneration          |  |                   |  |                        |  |                |  | Ratio of total remuneration (A+B+C+D) to net income(%) |  | Relevant remuneration received by directors who are also employees |  |                   |  |                                    |       |  |   | Ratio of total compensation (A+B+C+D+E+F+G) to net income(%) |  | Compensation paid to directors from an invested company other than the company's subsidiary |  |  |
|----------|--|-----------------------|--|-------------------|--|------------------------|--|----------------|--|--|--|--|--|-------------------|--|------------------------------------|-------|--|---|--|--|---|--|--|
|          |  | Base Compensation (A) |  | Severance Pay (B) |  | Bonus to Directors (C) |  | Allowances (D) |  |  |  | Salary, Bonuses, and Allowances (E)                                |  | Severance Pay (F) |  | Profit Sharing- Employee Bonus (G) |       |  |   |  |  |   | Exercisable Employee Stock Options (H) |  |
|          |  | The company           | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | The company            | Companies in the consolidated financial statements | The company    | Companies in the consolidated financial statements | The company  | Companies in the consolidated financial statements | The company  | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | The company                        |       | Companies in the consolidated financial statements |   | The company  | Companies in the consolidated financial statements |   | The company                            | Companies in the consolidated financial statements |
| Cash     | Stock  |                       |  |                   |  |                        |  |                |  |  |  |  |  |                   |  | Cash                               | Stock |  |   |  |  |   |  |  |
| Chairman | Ms. Judy Lee   | 5,750                 | 17,272   | 0                 | 0  | 4,013                  | 4,774  | 240            | 494  | 2.05%  | 3.63%  | 13,775   | 27,807   | 428               | 428  | 12,100                             | 0     | 12,984   | 0 | 0  | 0  | 7.48%   | 10.28%                                 | 0  |
| Director | Mr. Tony Ho  |                       |  |                   |  |                        |  |                |  |  |  |  |  |                   |  |                                    |       |  |   |  |  |   |  |  |
| Director | Mr. George Hsu   |                       |  |                   |  |                        |  |                |  |  |  |  |  |                   |  |                                    |       |  |   |  |  |   |  |  |
| Director | Ms. Robin Ho   |                       |  |                   |  |                        |  |                |  |  |  |  |  |                   |  |                                    |       |  |   |  |  |   |  |  |
| Director | Li-Hsiung Co., Ltd. Representative: Ms. Lee, Ai-Chen       |                       |  |                   |  |                        |  |                |  |  |  |  |  |                   |  |                                    |       |  |   |  |  |   |  |  |
| Director | Li-Hsiung Co., Ltd. Representative: Mr. Huang, Chung-Hsing |                       |  |                   |  |                        |  |                |  |  |  |  |  |                   |  |                                    |       |  |   |  |  |   |  |  |
| Director | Li-Hsiung Co., Ltd. Representative                         |                       |  |                   |  |                        |  |                |  |  |  |  |  |                   |  |                                    |       |  |   |  |  |   |  |  |

|  |   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|--|---|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
|  | ntative:<br>Mr.<br>Huang,<br>Hsin-Hsi<br>en |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|--|---|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

| Bracket                          | Name of Directors  |  |   |   |
|----------------------------------|--|--|---|---|
|                                  | Total of (A+B+C+D)   |  | Total of (A+B+C+D+E+F+G)  |   |
|                                  | The company  | Companies in the consolidated financial statements   | The company   | Companies in the consolidated financial statements  |
| Under NT\$ 2,000,000             | Mr. George Hsu 、 Ms. Robin Ho 、 Li-Hsiung Co., Ltd. Representative: Ms. Lee, Ai-Chen and Mr. Huang, Chung-Hsing and Mr. Huang Hsin-Hsien | Mr. George Hsu 、 Ms. Robin Ho 、 Li-Hsiung Co., Ltd. Representative: Ms. Lee, Ai-Chen and Mr. Huang, Chung-Hsing and Mr. Huang Hsin-Hsien | Mr. George Hsu 、 Li-Hsiung Co., Ltd. Representative: Ms. Lee, Ai-Chen and Mr. Huang, Chung-Hsing and Mr. Huang Hsin-Hsien | Mr. George Hsu 、 Li-Hsiung Co., Ltd. Representative: Ms. Lee, Ai-Chen and Mr. Huang, Chung-Hsing and Mr. Huang Hsin-Hsien |
| NT\$2,000,000 ~ NT\$5,000,000    | Mr. Tony Ho 、 Ms. Judy Lee   | 0  | Ms. Robin Ho  | 0   |
| NT\$5,000,000 ~ NT\$10,000,000   | 0  | Ms. Judy Lee   | 0   | Ms. Robin Ho  |
| NT\$10,000,000 ~ NT\$15,000,000  | 0  | Mr. Tony Ho  | Mr. Tony Ho、Ms. Judy Lee  | 0   |
| NT\$15,000,000 ~ NT\$30,000,000  | 0  | 0  | 0   | Ms. Judy Lee  |
| NT\$30,000,000 ~ NT\$50,000,000  | 0  | 0  | 0   | Mr. Tony Ho   |
| NT\$50,000,000 ~ NT\$100,000,000 | 0  | 0  | 0   | 0   |
| Over NT\$100,000,000             | 0  | 0  | 0   | 0   |
| Total                            | 7  | 7  | 7   | 7   |

## Remuneration of Supervisors

As of Dec. 31, 2010 ; Unit: NT\$ thousands

| Title      | Name   | Remuneration         |  |                         |  |               |  | Ratio of total remuneration (A+B+C) to net income (%) |  | Compensation paid to supervisors from an invested company other than the company's subsidiary |
|------------|--|----------------------|--|-------------------------|--|---------------|--|---|--|---|
|            |  | Base Compensation(A) |  | Bonus to Supervisors(B) |  | Allowances(C) |  |   |  |   |
|            |  | The company          | Companies in the consolidated financial statements | The company             | Companies in the consolidated financial statements | The company   | Companies in the consolidated financial statements | The company   | Companies in the consolidated financial statements |   |
| Supervisor | Tsai-Chi Co., Ltd. Representative: Mr. Lai, Yung-Chi     | 0                    | 1,000  | 2,745                   | 3,696  | 90            | 285  | 0.58%   | 0.80%  | 0   |
| Supervisor | Tsai-Chi Co., Ltd. Representative: Mr. Liao, Hsueh-Hsing |                      |  |                         |  |               |  |   |  |   |

| Bracket                          | Name of Supervisors  |  |
|----------------------------------|--|--|
|                                  | Total of (A+B+C)   |  |
|                                  | The company  | Companies in the consolidated financial statements                           |
| Under NT\$ 2,000,000             | 0  | 0  |
| NT\$2,000,000 ~ NT\$5,000,000    | Tsai-Chi Co., Ltd. Representative: Mr. Lai, Yung-Chi · Mr. Liao, Hsueh-Hsing | Tsai-Chi Co., Ltd. Representative: Mr. Lai, Yung-Chi · Mr. Liao, Hsueh-Hsing |
| NT\$5,000,000 ~ NT\$10,000,000   | 0  | 0  |
| NT\$10,000,000 ~ NT\$15,000,000  | 0  | 0  |
| NT\$15,000,000 ~ NT\$30,000,000  | 0  | 0  |
| NT\$30,000,000 ~ NT\$50,000,000  | 0  | 0  |
| NT\$50,000,000 ~ NT\$100,000,000 | 0  | 0  |
| Over NT\$100,000,000             | 0  | 0  |
| Total                            | 2  | 2  |



## Compensation of President and Vice President

As of Dec. 31, 2010 ; Unit: NT\$ thousands

| Title  | Name         | Salary(A)   |  | Severance Pay (B) |  | Bonuses and Allowances (C) |  | Profit Sharing- Employee Bonus (D) |       |  |       | Ratio of total compensation (A+B+C+D) to net income (%) |  | Exercisable Employee Stock Options |  | Compensation paid to the president and vice president from an invested company other than the company's subsidiary |
|--|--------------|-------------|--|-------------------|--|----------------------------|--|------------------------------------|-------|--|-------|---|--|------------------------------------|--|--|
|  |              | The company | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | The company                | Companies in the consolidated financial statements | The company                        |       | Companies in the consolidated financial statements |       | The company   | Companies in the consolidated financial statements | The company                        | Companies in the consolidated financial statements |  |
|  |              |             |  |                   |  |                            |  | Cash                               | Stock | Cash   | Stock |   |  |                                    |  |  |
| President  | Sophia Tong  | 97,288      | 111,319  | 2,592             | 2,592  | 8,143                      | 8,143  | 21,139                             | 0     | 21,935   | 0     | 26.53   | 23.22  | 0                                  | 0  | 0  |
| GM of Strategy & Development Center                | Tony Ho      |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| GM of of Business Relations and Development Center | Judy Lee     |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| VP   | John Peng    |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| VP   | Peter Dong   |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| VP   | Alfred Chang |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| VP   | Hannis Chang |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| VP   | Lawrence Wu  |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| VP   | Jane Peng    |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| VP   | Gillian Joe  |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |
| VP   | Angeli Chan  |             |  |                   |  |                            |  |                                    |       |  |       |   |  |                                    |  |  |

|    |                 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|----|-----------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| VP | Bob Yueh        |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Tracy Tsai      |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Edward Kao      |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Paul Wang       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Marshall Cheng  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | James Pong      |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Eva Ho          |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Spencer Lee*    |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | James Lo*       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Terrance Yang*  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Winnie Teng*    |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Robin Ho*       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | CC Fan*         |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Kelly Ho*       |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | James Huang*    |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Hans Chen*      |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| VP | Melvin Shiraki* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

\* James Huang resigned in March, 2010 ; Hans Chen resigned in July, 2010 ; Melvin Shiraki resigned in September,2010.

\* Spencer Lee's on board date is Jan. 2010 ; James Lo's on board date is Jan. 2010 ; Terrance Yang's on board date is April, 2010 ; Winnie Teng's on board date is April, 2010 ; Robin Ho's on board date is June, 2010 ; CC Fan's on board date is June, 2010 ; Kelly Ho's on board date is August, 2010.

\* Note : The Company's contribution to employee's pension account, not actual amount paid.

| Bracket                          | Name of President and Vice President   |   |
|----------------------------------|--|---|
|                                  | The company  | Companies in the consolidated financial statements  |
| Under NT\$ 2,000,000             | James Huang、Hans Chen、Lawrence Wu、Kelly Ho、Winnie Teng、Edward Kao  | James Huang、Hans Chen、Lawrence Wu、Kelly Ho、Winnie Teng、Edward Kao   |
| NT\$2,000,000 ~ NT\$5,000,000    | Peter Dong、John Peng、Bob Yueh、Tracy Tsai、Paul Wang、Robin Ho、Alfred Chang、James Lo、Spencer Lee、CC Fan、Gillian Joe、Angeli Chan、Hannis Chang、Marshall Cheng、Terrance Yang | Peter Dong、John Peng、Bob Yueh、Tracy Tsai、Paul Wang、Alfred Chang、James Lo、Spencer Lee、CC Fan、Gillian Joe、Angeli Chan、Hannis Chang、Marshall Cheng、Terrance Yang |
| NT\$5,000,000 ~ NT\$10,000,000   | Tony Ho、Judy Lee、Sophia Tong、Jane Peng、James Pong、Melvin Shiraki、Eva Ho  | Sophia Tong、Jane Peng、James Pong、Melvin Shiraki、Eva Ho、Robin Ho   |
| NT\$10,000,000 ~ NT\$15,000,000  | 0  | Judy Lee  |
| NT\$15,000,000 ~ NT\$30,000,000  | 0  | Tony Ho   |
| NT\$30,000,000 ~ NT\$50,000,000  | 0  | 0   |
| NT\$50,000,000 ~ NT\$100,000,000 | 0  | 0   |
| Over NT\$100,000,000             | 0  | 0   |
| Total                            | 28   | 28  |

Unit: NT\$ thousands

|                    | Title  | Name              | Employee Bonus<br>- in Stock<br>(Fair Market<br>Value) | Employee<br>Bonus<br>- in Cash | Total      | Ratio of Total<br>Amount to Net<br>Income ( % ) |
|--------------------|--|-------------------|--|--------------------------------|------------|---|
| Executive Officers | President  | Sophia Tong       | 0  | 21,139,314                     | 21,139,314 | 4.34%   |
|                    | GM of Strategy & Development Center                | Tony Ho           |  |                                |            |   |
|                    | GM of of Business Relations and Development Center | Judy Lee          |  |                                |            |   |
|                    | VP   | John Peng         |  |                                |            |   |
|                    | VP   | Peter Dong        |  |                                |            |   |
|                    | VP   | Alfred Chang      |  |                                |            |   |
|                    | VP   | Hannis Chang      |  |                                |            |   |
|                    | VP   | Lawrence Wu       |  |                                |            |   |
|                    | VP   | Jane Peng         |  |                                |            |   |
|                    | VP   | Gillian Joe       |  |                                |            |   |
|                    | VP   | Angeli Chan       |  |                                |            |   |
|                    | VP   | Bob Yueh          |  |                                |            |   |
|                    | VP   | Tracy Tsai        |  |                                |            |   |
|                    | VP   | Edward Kao        |  |                                |            |   |
|                    | VP   | Paul Wang         |  |                                |            |   |
|                    | VP   | Marshall Cheng    |  |                                |            |   |
|                    | VP   | Eva Ho            |  |                                |            |   |
|                    | VP   | James Pong        |  |                                |            |   |
|                    | VP   | Spencer Lee*      |  |                                |            |   |
|                    | VP   | James Lo*         |  |                                |            |   |
|                    | VP   | Terrance Yang*    |  |                                |            |   |
|                    | VP   | Winnie Teng*      |  |                                |            |   |
|                    | VP   | Robin Ho*         |  |                                |            |   |
|                    | VP   | CC Fan*           |  |                                |            |   |
|                    | VP   | Kelly Ho*         |  |                                |            |   |
|                    | VP   | James Huang*      |  |                                |            |   |
|                    | VP   | Hans Chen*        |  |                                |            |   |
|                    | VP   | Melvin Shiraki*   |  |                                |            |   |
|                    | AVP  | Linda Lin         |  |                                |            |   |
|                    | AVP  | Alex Yu           |  |                                |            |   |
|                    | AVP  | Lancy Wu          |  |                                |            |   |
|                    | AVP  | Shelly Chen       |  |                                |            |   |
|                    | AVP  | Monica Chen       |  |                                |            |   |
|                    | AVP  | Frank JF Chang    |  |                                |            |   |
|                    | AVP  | Jack Chang*       |  |                                |            |   |
|                    | AVP  | Constance Chuang* |  |                                |            |   |
|                    | AVP  | Eric Chang*       |  |                                |            |   |
|                    | AVP  | Arthur Chen*      |  |                                |            |   |
|                    | AVP  | Gino Chen*        |  |                                |            |   |
|                    | AVP  | Vanessa Chien*    |  |                                |            |   |
|                    | AVP  | David Chou*       |  |                                |            |   |

\* David Chou resigned in Jan.,2010 ; James Huang resigned in Jan., 2010 ; Hans Chen resigned in July 2010 ; Melvin Shiraki resigned in Sep. 2010.

\* Spencer Lee's on board date is Jan. 2010 ; James Lo's on board date is Jan. 2010 ; Terrance Yang's on board date is April, 2010 ; Winnie Teng's on board date is April, 2010 ; Jack Chang's on board date is April, 2010 ; Constance Chuang's on board date is April, 2010 ; Robin Ho's on board date is June, 2010 ; Eric Chang's on board date is June, 2010 ; CC Fan's on board date is June, 2010 ; Kelly Ho's on board date is August, 2010. ; Arthur Chen's on board date is October, 2010 ; Vanessa Chien's on board date is October, 2010 ; Gino Chen 's on board date is November, 2010.

### 3.2.4 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

A. The ratio of total remuneration paid by the company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income.

| Title \ Year                   | Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%) - Companies in the consolidated financial statements | Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%) - Companies in the consolidated financial statements |
|--------------------------------|---|---|
|                                | 2009  | 2010  |
| Directors                      | 21.01%  | 10.16%  |
| Supervisors                    | 0.86%   | 0.80%   |
| Presidents and vice presidents | 47.55%  | 23.22%  |

B. The remuneration of directors and supervisors of the Company and the Group under consolidated financial statements includes transportation expenses, earning distribution for the remuneration of directors and supervisors and remuneration to concurrent employees. Transportation expenses are determined based on industry standards, and are paid based on the attendances of directors and supervisors; Earnings distribution rewards are determined based on the provisions of the Articles of Incorporation of the Company and of the Group under consolidated financial statements, and are drafted by the Board of Directors and submitted to the shareholders' meeting for approval; Remuneration to President and vice presidents includes salary and employee bonuses, which are determined by the level of responsibilities of the positions and performance as well as based on industry standards that apply to similar positions.

## 3.3 Implementation of Corporate Governance

### 3.3.1 Board of Directors

A total of seven meetings of the board of directors were held in the previous period. Director and supervisor attendance was as follows:

| Title    | Name           | Attendance in Person(B) | By Proxy | Attendance rate (%) 【 B / A 】 | Remarks  |
|----------|----------------|-------------------------|----------|-------------------------------|--|
| Chairman | Ms. Judy Lee   | 7                       | 0        | 100.0%                        |  |
| Director | Mr. Tony Ho    | 6                       | 1        | 85.7%                         |  |
| Director | Mr. George Hsu | 7                       | 0        | 100.00%                       |  |
| Director | Ms. Robin Ho   | 4                       | 0        | 80.0%                         | Ms. Ho resigned on June 15, 2010, and was required |

| Title      | Name  | Attendance in Person(B) | By Proxy | Attendance rate (%) 【 B / A 】 | Remarks                  |
|------------|---|-------------------------|----------|-------------------------------|--------------------------|
|            |   |                         |          |                               | to attend five meetings. |
| Director   | Li-Hsiung Co., Ltd.<br>Representative: Ms. Lee, Ai-Chen       | 5                       | 1        | 71.4%                         |                          |
| Director   | Li-Hsiung Co., Ltd.<br>Representative: Mr. Huang, Chung-Hsing | 4                       | —        | 57.1%                         |                          |
| Director   | Li-Hsiung Co., Ltd.<br>Representative: Mr. Huang, Hsin-Hsien  | 6                       | 1        | 85.7%                         |                          |
| Supervisor | Tsai-Chi Co., Ltd.<br>Representative: Mr. Lai, Yung-Chi       | 7                       | —        | 100.00%                       |                          |
| Supervisor | Tsai-Chi Co., Ltd.<br>Representative: Mr. Liao, Hsueh-Hsing   | 6                       | —        | 85.7%                         |                          |

Other notable items:

1. If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing, the dates of meetings, sessions, contents of motions, all independents' opinion and the Company's response to independent directors' opinion should be specified : None
2. If there is Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motions, causes for avoidance and voting should be specified : None
3. Measures taken to strengthen the functionality of the Board : The Board of Directors has established an Audit Committee and a Compensation Committee to assist the Board in carrying out its various duties.

### 3.3.2 Attendance of Supervisors for Board Meetings

A total of seven meetings of the board of directors were held in the previous period.

Supervisor attendance was as follows:

| Title      | Name   | Attendance in Person(B) | Attendance rate (%)<br>【 B / A 】 | Remarks |
|------------|--|-------------------------|----------------------------------|---------|
| Supervisor | Tsai-Chi Co., Ltd.<br>Representative:<br>Mr. Lai, Yung-Chi     | 7                       | 100.0%                           |         |
| Supervisor | Tsai-Chi Co., Ltd.<br>Representative:<br>Mr. Liao, Hsueh-Hsing | 6                       | 85.7%                            |         |

Other notable items:

1. Composition and responsibilities of supervisors:

(1) Communications between supervisors and the Company's employees and shareholders : All supervisors participate in the annual shareholders' meeting; they also have effective communication with the Chief Financial Officer and Chief Accounting Officer.

(2) Communications between supervisors and the Company's Chief Internal Auditor and CPA

- Communications with Chief Internal Auditor : In addition to providing regular reports to the Board of Directors on the findings and areas of improvement determined via internal audits, the head of Internal Audit also submits monthly audit operations plans and reports to supervisors.
- Communications with the CPA : Supervisors communicate and confirm the review of business reports, earning distribution statements, and the results of annual audit reports with accountants; clear and effective communication is maintained.

2. If a supervisor expresses an opinion during a meeting of the Board of Directors, the dates of meetings, sessions, contents of motions, resolutions of the directors' meetings and the Company's response to supervisor's opinion should be specified: None

### 3.3.3 Corporate Governance Execution Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”

| Item   | Implementation Status  | Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” and reasons   |
|--|--|--|
| <p>1.Shareholding Structure &amp; Shareholders’ Rights</p> <p>(1)Method of handling shareholder suggestions or complaints</p> <p>(2)The Company’s possession of a list of major shareholders and a list of ultimate owners of these major shareholders</p> <p>(3)Risk management mechanism and “firewall” between the Company and its affiliates</p> | <p>(1)The Company has a spokesman and deputy spokesman, and has set up a mailbox dedicated to investors to handle investor-related issues.</p> <p>(2)The Company has a dedicated team responsible for carrying out shareholder services, and has appointed the shareholder services agent of a securities firm to assist with matters related to shareholder services. The Company also has access to the list of major shareholders and ultimate controllers of major shareholders.</p> <p>(3)The Company has established and implemented the following internal control guidelines: Subsidiary Supervision Guidelines, Internal Control System for the Supervision of Subsidiaries and Auditing for the Supervision of Subsidiaries.</p> | <p>Our guidelines are consistent with those specified in Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies</p>  |
| <p>2.Composition and Responsibilities of the Board of Directors</p> <p>(1)Independent Directors</p> <p>(2)Regular evaluation of CPAs’ independence</p>   | <p>(1)The Company does not currently have independent directors</p> <p>(2)Assessment is conducted annually</p>   | <p>(1) The Company is in the process of conducting a thorough assessment and will appoint independent directors based on actual requirements or if required by law.</p> <p>(2)Our guidelines are consistent with those specified in Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies</p> |
| <p>3.Communication channel with stakeholders</p>   | <p>The Company has a spokesperson and deputy spokesperson, shareholder services and public relations departments, as well as a mailbox dedicated to investors, the purpose of which is to establish an effective channel of communication with stakeholders</p>  | <p>Our guidelines are consistent with those specified in Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies</p>  |
| <p>4.Information Disclosure</p> <p>(1)Establishment of a corporate website to disclose information regarding the Company’s financials, business and corporate governance status</p> <p>(2)Other information disclosure channels (e.g., maintaining</p>   | <p>(1) We take proper care of our employees based on the Company’s principles of integrity and good faith, and we abide by the Labor Standards Act promulgated by the government to protect the legitimate rights and interests of our employees, which are carried out in accordance with the</p>   | <p>Our guidelines are consistent with those specified in Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies</p>  |



| Item   | Implementation Status   | Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" and reasons   |
|--|---|--|
| an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)   | <p>Company's internal regulations and management guidelines. The Company's website (www.testritegroup.com), has been established for the purpose of disclosing relevant information about the Company. Investors may also consult the official Market Observation Post System (MOPS) set up by the competent authority at <a href="http://mops.twse.com.tw">http://mops.twse.com.tw</a>.</p> <p>(2) In addition to a website with information written in Chinese, the Company has also established an English version of the website; the Company also disclosed information on the MOPS website in accordance with regulatory requirements, appointed a spokesperson, and completed various reporting requirements. Searchable excerpts of briefings of institutional investor conferences are available at the corporate website.</p> |  |
| 5. Operations of the Company's Nomination Committee, Compensation Committee, or other committees of the Board of Directors   | The Company does not yet have a Remuneration Committee  | The Company plans to establish a Remuneration Committee by the end of this year. Other functional committees shall be established as needed in accordance with business or regulatory requirements |
| 6. If the Company has established corporate governance principles based on "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation : The Company's corporate governance best-practice principles are currently being developed; however, the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies shall be adopted as the basis for the Company's corporate governance practices.  |   |  |
| <p>7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors):</p> <p>1、employee rights : The Company takes proper care of employees based on the Company's principles of integrity and good faith and abides by the Labor Standards Act promulgated by the government to protect the legitimate rights and interests of employees and provide equal employment opportunities; The Employee Welfare Committee established by the Company has implemented an employee pension system, offers employee group insurance, and organizes various training courses for employees, etc.</p> <p>2、employee wellness : The Employee Welfare Committee is established in accordance with the law and organizes various recreational activities, medical checkups, employee travel, and employee shopping days from time to time. The Committee also provides subsidies to social clubs organized by employees. In addition, the Company has made available a large number of parking spaces to employees in order to resolve employee parking issues. With respect to emergency assistance, in addition to providing employees with protection through group insurance, the Company's responsible person shall also take the initiative to call for voluntary contributions from employees to render assistance to fellow employees in the</p> |   |  |

| Item   | Implementation Status |            | Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies” and reasons |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
|--|-----------------------|------------|--|---|----------------|-------|------|------------|-------------------------|--------|----------------|----------|------------|-----------|--------------------------------|---|---|----------|--------------------|-----------|--------------------------------|--|---|----------|------------|-----------|----------------------------------|---------------------------------|----|----------|-------------------|-----------|----------------------------------|---------------------------------|----|
| event of major emergencies.  |                       |            |  |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| 3、investor relations：The Company discloses relevant information in accordance with the law and has appointed a dedicated investor relations officer who is responsible for managing investor relations and associated activities in order to protect the interests of investors and stakeholders and fulfill our corporate responsibility to shareholders.   |                       |            |  |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| 4、supplier relations and rights of stakeholders：The Company's business philosophy lies in achieving success together with our suppliers. We have always maintained a positive and healthy relationship with each supplier and requests made to both vendors and stakeholders have been reasonable. We always offer the opportunity for communication and respect the legitimate rights and interests of all parties involved.  |                       |            |  |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| 5、directors’ and supervisors’ training records：  |                       |            |  |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| <table><tr><td>Title</td><td>Name</td><td>Study Date</td><td>Sponsoring Organization</td><td>Course</td><td>Training hours</td></tr><tr><td>Director</td><td>George Hsu</td><td>8.11.2010</td><td>Securities &amp; Futures Institute</td><td>2010 Orientation on regulations governing internal transfer of shares</td><td>3</td></tr><tr><td>Director</td><td>Huang, Chung-Hsing</td><td>9.14.2010</td><td>Securities &amp; Futures Institute</td><td>Directors and supervisors how to avoid conflict interest</td><td>3</td></tr><tr><td>Director</td><td>George Hsu</td><td>12.3.2010</td><td>Corporate Governance Association</td><td>2010 Corporate governance forum</td><td>12</td></tr><tr><td>Director</td><td>Huang, Hsin-Hsien</td><td>12.3.2010</td><td>Corporate Governance Association</td><td>2010 Corporate governance forum</td><td>12</td></tr></table> |                       |            |  |   |                | Title | Name | Study Date | Sponsoring Organization | Course | Training hours | Director | George Hsu | 8.11.2010 | Securities & Futures Institute | 2010 Orientation on regulations governing internal transfer of shares | 3 | Director | Huang, Chung-Hsing | 9.14.2010 | Securities & Futures Institute | Directors and supervisors how to avoid conflict interest | 3 | Director | George Hsu | 12.3.2010 | Corporate Governance Association | 2010 Corporate governance forum | 12 | Director | Huang, Hsin-Hsien | 12.3.2010 | Corporate Governance Association | 2010 Corporate governance forum | 12 |
| Title  | Name                  | Study Date | Sponsoring Organization  | Course  | Training hours |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| Director   | George Hsu            | 8.11.2010  | Securities & Futures Institute   | 2010 Orientation on regulations governing internal transfer of shares | 3              |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| Director   | Huang, Chung-Hsing    | 9.14.2010  | Securities & Futures Institute   | Directors and supervisors how to avoid conflict interest              | 3              |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| Director   | George Hsu            | 12.3.2010  | Corporate Governance Association   | 2010 Corporate governance forum                                       | 12             |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| Director   | Huang, Hsin-Hsien     | 12.3.2010  | Corporate Governance Association   | 2010 Corporate governance forum                                       | 12             |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| 6、Implementation of risk management policies and risk measurement standards: The Company's internal control, risk management system and essential management regulations and guidelines are subject to approval by the Board of Directors. For the status of implementation of other relevant risk management policies and risk measurement standards, please refer to the "Risk Management" section of this Annual Report.  |                       |            |  |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| 7、Customer policy implementation: The Company adheres to the provisions of the contracts entered into with customers and is committed to protecting their rights and to providing good service quality.  |                       |            |  |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| 8、Insurance coverage purchased by the Company on liability of directors and supervisors: The Company has purchased liability insurance coverage for directors and supervisors.   |                       |            |  |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |
| 8. If the Company has implemented a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: In the annual internal control self-evaluation operation conducted by the Company, no material deficiencies requiring rectification or improvement have been found.   |                       |            |  |   |                |       |      |            |                         |        |                |          |            |           |                                |   |   |          |                    |           |                                |  |   |          |            |           |                                  |                                 |    |          |                   |           |                                  |                                 |    |

**3.3.4 Composition, Responsibilities and Operations of Compensation Committee**：Currently the Company has not yet established a Remuneration Committee but has planned to do so by the end of 2011 and the Board is charged with the responsibility of drafting and approving the organizational regulations of the Remuneration Committee.

### 3.3.5 Social Responsibility

| Item   | Implementation Status  | Deviations from "Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and reasons                                 |
|--|--|---|
| <p>1. Implementing corporate governance practices</p> <p>(1) The Company establishes corporate social responsibility policies or systems to review the effectiveness of the implementation.</p> <p>(2) Status of the Company's dedicated (or participating) unit on the promotion of corporate social responsibility.</p> <p>(3) The status of the Company's practice of organizing regular training sessions and awareness programs on business ethics for directors, supervisors and employees, and establishing a clear and effective incentive and disciplinary system by integrating the results of the training with employee performance appraisal:</p>   | <p>(1) The Company's corporate social responsibility policies or rules are currently being formulated.</p> <p>(2) The Company's dedicated (or participating) unit on the promotion of corporate social responsibility practices: Human Resources Division and Public Relations Division will continue their commitment to carrying out corporate social responsibility practices.</p> <p>(3) The Company organizes education and training programs as well as awareness initiatives on a regular basis. Currently we have implemented a clear and effective incentive and disciplinary system by integrating the results of the training with employee performance appraisal.</p>  | <p>Our guidelines are consistent with those specified in Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies.</p> |
| <p>2. Developing a sustainable environment</p> <p>(1) The Company's commitment to improving the efficiency of the utilization of various resources and to the use of renewable materials that have a lower impact on the environment.</p> <p>(2) The Company's practice on the establishment of an appropriate environment management system in accordance with the nature and characteristics of the industry to which it belongs.</p> <p>(3) The status of a dedicated environment management unit or personnel established to maintain and protect the environment.</p> <p>(4) The status of the Company's awareness of the effects of climate change on business activities and the development of corporate strategy on the reduction of carbon emissions and greenhouse gases.</p> | <p>(1)(2) The Company's main products and services revolve around international trade. The Company is not engaged in actual manufacturing. However, we require that the manufacturing processes of our suppliers comply with the environmental standards and requirements of our customers in European and North America.</p> <p>(3) The Company's general administration unit is the dedicated department responsible for environmental management.</p> <p>(4) Climate change has become an important issue to enterprises. The Company has implemented policies on conservation of energy and the reduction of carbon emissions and greenhouse gases. Examples are recycling, temperature control for air-conditioning, use of energy-saving light fixtures as well as adoption of water-conserving faucets.</p> | <p>Our guidelines are consistent with those specified in Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies.</p> |
| <p>3. Promoting social welfare</p> <p>(1) The Company's status on the compliance with relevant labor laws, the protection of the legitimate interests of employees, and the establishment of appropriate management practices and procedures.</p>  | <p>(1) We take proper care of our employees based on the Company's principles of integrity and good faith, and we abide by the Labor Standards Act promulgated by the government to protect the legitimate rights and</p>  | <p>Our guidelines are consistent with those specified in Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies.</p> |

| Item  | Implementation Status  | Deviations from "Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and reasons                                   |
|---|--|---|
| <p>(2) The Company's practices in providing employees with a safe and healthy working environment and in implementing training on safety and health for employees on a regular basis.</p> <p>(3) Status of the Company's development and announcement of its consumer protection policy, and on the transparency and effectiveness of its customer grievance procedures with respect to the products and services that the Company provides.</p> <p>(4) The Company's cooperation and joint efforts with suppliers to improve their corporate social responsibility.</p> <p>(5) How the Company engages in the donations of commodities, enterprise volunteer services or the provision of other free professional services, participation in community development and in the work of charities through its commercial activities.</p> | <p>interests of our employees, which are carried out in accordance with the Company's internal regulations and management guidelines.</p> <p>(2) The Company endeavors to provide employees with a safe and healthy working environment and arrange for employees to participate in annual medical checkups. In addition, the Company has engaged the Employee Assistance and Services Center and professional consultants to provide the staff with specialized psychological counseling, adjustment to work, sleep disorder counseling and related services. The Company also organizes health workshops and provides health education information from time to time to enable the staff to take better control of their health.</p> <p>(3) Consumer rights: The Company has established dedicated personnel and an e-mail address to handle customer complaints and other issues related to consumer rights.</p> <p>(4) The Company shall carry out joint efforts with suppliers in the future to improve their corporate social responsibility.</p> <p>(5) The Company is actively involved in community activities and charities with its Test Rite Happy Community project Sponsorship of Formosa Charity Group; Members of the Company's staff are involved with activities such as traveling to schools in remote towns and villages as volunteers, donating books, and participating in charity bazaars and providing donations to the Chinese Christian Relief Association's project, "After School Reading Program for Children of Disadvantaged Families."</p> |   |
| <p>4. Enhancing information disclosure</p> <p>(1) The manner in which the Company discloses information related to corporate social responsibility that concerns relevance and reliability.</p> <p>(2) The status of the Company compiling the Corporate Social Responsibility Report and disclosing its work</p>   | <p>(1)(2) The Company has not yet drafted the Corporate Social Responsibility Report, but will do so depending on practical needs in the future and to enhance disclosure of the Company's practices of corporate social responsibility.</p>   | <p>The Company has not yet drafted the Corporate Social Responsibility Report, but will do so depending on practical needs in the future.</p> |

| Item   | Implementation Status | Deviations from "Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies" and reasons |
|--|-----------------------|---|
| on the promotion of corporate social responsibility.   |                       |   |
| 5、If the Company has established its own corporate social responsibility codes of conduct based on "Corporate social responsibility codes of practice of listed companies," describe its operations and discrepancies with the standards:<br>The Company's Code of Practice for Corporate Social Responsibility and associated guidelines are currently being formulated.  |                       |   |
| 6、Other important information that may help to clarify the status of the Company's corporate social responsibility (such as the systems and measures adopted by the Company's on environmental protection, community involvement, contributions to the society, social services, social welfare, consumer rights and human rights as well as security and health, together with the results of these activities):<br>(1) The Company is engaged only in international trade without any involvement in manufacturing, but we require that the manufacturing processes of our suppliers be compliant with the environmental standards and requirements of our customers in European and North America.<br>(2) Community involvement, social contributions, social services, social welfare, human rights, security, health and other social responsibility activities: Test Rite Group expresses concern for the community, participates in activities benefiting the society and devotes efforts in practicing corporate social responsibility, such as the Test Rite Happy Community project; Sponsorship of Formosa Charity Group; Participation in disaster relief efforts for victims of Typhoon Morakot (August 2009), donating timely relief supplies worth approximately NT\$10 million to disaster areas; Sponsorship and support of the sport of archery in Taiwan; The Group's Volunteer Day, "Let Love Guide Us in Moving Forward," organizes charity bazaars and donations to the Chinese Christian Relief Association's project, "After School Reading Program for Children of Disadvantaged Families," which helps children in desperate need of education and family support; Members of the Company's staff are involved with activities such as traveling to schools in remote towns and villages as volunteers and donating books. |                       |   |
| 7. Provide description for any of the Company's products or corporate social responsibility reports that have received certifications from relevant accreditation bodies: The Company has received certification for ISO9001: 2008 Quality Management System.  |                       |   |

**3.3.6 Corporate Governance Guidelines and Regulations :** The Company has not yet formulated our own guidelines for corporate governance practices; The Company has established a set of operational procedures for significant information, and all relevant departments and employees charged with the responsibility of handling and disclosing significant information must comply with the provisions of these procedures and with applicable laws and regulations.

### 3.3.7 Other Important Information Regarding Corporate Governance :

Managers' training records :

| Title          | Name      | Study Date    | Sponsoring Organization                                  | Course   | Training hours |
|----------------|-----------|---------------|--|--|----------------|
| Accounting AVP | Linda Lin | 10/25/2010    | Accounting Research and Development Foundation in Taiwan | The liability of the public company release material Information and case studies to offenses relative | 3              |
| Auditing AVP   | Lancy Wu  | 4/14/2010     | the Institute of Internal Auditors                       | Analysis of Enterprise corrupting practices and to enhance the synergy of corporate government         | 3              |
|                |           | 7/20/2010     | the Institute of Internal Auditors                       | To increase the value by risk-based computer auditing  | 3              |
|                |           | 8/25/2010     | the Institute of Internal Auditors                       | Audit practices of overseas subsidiaries   | 3              |
|                |           | 10/25-26/2010 | the Institute of Internal Auditors                       | To increase the value by risk-based auditing   | 14             |

### 2、Employees' certification related to financial transparency :

| Name       | certification   |
|------------|---|
| Eva Ho     | CPA(USA)  |
| Lancy Wu   | Qualified Internal Auditor (QIA)、Certified Internal Auditor (CIA)、Basic examination on internal controls by the Securities and Futures Institute  |
| Paul Chen  | Qualified Internal Auditor (QIA)、Certified Internal Auditor (CIA)、Certification in Control Self-Assessment  |
| Lynn Lee   | Qualified Internal Auditor (QIA)、Certified Internal Auditor (CIA):  |
| Jack Chang | Senior Securities Specialist、Paper 1  |
| Ruby Yeh   | Proficiency Test for Trust Operations Personnel, Senior Securities Specialist, Futures Specialist, Securities Investment Trust and Consulting Professionals、WBSA certified business planner |
| Jimmy Chu  | Securities Specialist、Internal controller of bank   |
| Eva Huang  | CPA(USA)  |

### 3.3.8 Internal Control System :

Test Rite International Co., Ltd.  
Statement of Declaration on Internal Control System

Date: April 28, 2011

The Company conducted an internal audit for 2010 in accordance with its Internal Control Regulation and hereby declares as follows:

1. The company acknowledges and understands that the establishment, enforcement and preservation of the internal control system are the responsibility of the Board, and that the company has already established such a system. The purpose is to reasonable assurance to the effectiveness and efficiency of business operations (including profitability, performance and security of assets), reliability of financial reporting and compliance with relevant regulatory requirements.
2. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the three aforementioned goals. Moreover, the operating environment and situation may change, impacting the effectiveness of the internal control system. The internal control system of the Company features a self-monitoring mechanism. Once identified, any deficiency will be rectified immediately.
3. The Company determines the effectiveness of the internal control system in design and enforcement in accordance with the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "the Regulations"). The Regulations is instituted for judging the effectiveness of the design and enforcement of the internal control system. There are five components of effective internal control as specified in the Regulations with which the procedure for effective internal control is measured, namely: 1. Control environment, 2. Risk assessment and response, 3. Control operation, 4. Information and communication, 5. Supervision. Each of the elements in turn contains certain audit items. Refer to the Regulations for details.
4. The Company has adopted the aforementioned internal control system for an internal audit on the effectiveness of the design and enforcement of the internal control system.
5. Based on the aforementioned audit findings, the Company holds that it has reasonably preserved the achievement of the aforementioned with the internal control system as of December 31, 2010 (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant regulatory requirements, and that the design and enforcement of internal control are effective.
6. This statement of declaration shall form an integral part of the annual report and prospectus of the company and will be publicly announced. If any fraudulent information, concealment or unlawful practices are discovered in the content of the aforementioned information, the Company shall be held liable under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. This statement of declaration was unanimously approved by the Board on April 28, 2011 in the presence of 7 directors.

Test Rite Int' l Co., Ltd.

Chairman : Judy Lee

President : Sophia Tong

### 3.3.9 Major Resolutions of Shareholders' Meeting and Board Meetings

As of May 20, 2011

| Date/Item                             | Major resolutions   |
|---------------------------------------|---|
| 6/15/2010<br>shareholders'<br>meeting | <p>Issues discussed and approved:</p> <ol style="list-style-type: none"> <li>1. Approval of 2009 Business Report and Financial Statements</li> <li>2. Approval of 2009 Profits Distribution</li> <li>3. Approval of Proposal for a cash offering by either public offering through a book building process or private placement.</li> <li>4. Approval of partial amendment of Internal Rules :               <ol style="list-style-type: none"> <li>(1) Partial amendment to Endorsement / Guarantee Procedures.</li> <li>(2) Partial amendment to Procedures for Lending Funds to Others.</li> <li>(3) Partial amendment to Articles of Incorporation.</li> </ol> </li> <li>5. Election: Special election of a director with same term of service of current directors, i.e. until June 15, 2012<br/>Implementation status: The list of directors elected includes Robin Ho</li> <li>6. Approval of the waiving of non-competition clauses applicable to directors.<br/>Implementation status: A board resolution has been adopted, in accordance with the resolution passed at the shareholders' meeting, to lift the restrictions on the newly elector director Robin Ho regarding non-competition.</li> </ol> |
| 6/28/2010<br>Board<br>meeting         | <p>The Company's earning distribution and cash dividend proposal for fiscal year 2009 and related matters has been passed.</p> <p>Approved the Company's proposal on Approval Authorization Table of the Board of Directors, Chairperson and President Regarding the Handling of Company Affairs.</p> <p>Approved the capital increase proposal for Test Rite Business Development Corporation (China) Co., Ltd.</p> <p>Approved the proposal for the issuance of paperless securities to replace physical shares.</p> <p>Approved the proposal for establishing a subsidiary in the U.K.</p>   |
| 8/10/2010<br>Board<br>meeting         | <p>Approved the proposal for the cancellation of treasury shares for the purpose of capital reduction.</p> <p>Approved the partial amendments to the Company's Handling Procedure for Loans to Third Parties.</p>   |
| 8/30/2010<br>Board<br>meeting         | <p>Approved the Company's Financial Statements and Consolidated Financial Statements for the first half of 2010.</p>  |
| 9/30/2010<br>Board<br>meeting         | <p>Approved the investment proposal for Test Rite (China) Investment Co., Ltd.</p>  |
| 12/24/2010<br>Board<br>meeting        | <p>Approved the Company's business plan and budget review for fiscal year 2011.</p> <p>Approved the capital increase proposal for Test Rite (China) Investment Co., Ltd.</p> <p>Approved the Company's Internal Audit Plan for fiscal year 2011.</p> <p>Approved the amendments to the Company's Internal Control System.</p> <p>Approved the amendments to the Company's Internal Control Self-inspection Operation Guidelines.</p>  |
| 1/4/2011<br>Board<br>meeting          | <p>Approved the amendments to the Company's Guidelines for Company Share Buyback and Transfer of Ownership to Employees</p> <p>Approved the ninth transfer of ownership of treasury stock to employees.</p>   |
| 3/21/2011<br>Board<br>meeting         | <p>Approved the convening of the Company's annual shareholders' meeting for 2011.</p> <p>Approved the indirect capital increase of Test Rite Business Development Corporation (China) Co., Ltd. by Test Rite Trading Co.</p> <p>Approved loans extended to subsidiary Test Rite Retail Co., Ltd.</p> <p>Approved the financing proposal with First Commercial Bank as the lead bank</p>   |



| Date/Item                     | Major resolutions  |
|-------------------------------|--|
|                               | of the bank consortium providing the syndicated loan and the loan administrative bank with the amount of loan not exceeding the equivalent of NT\$6 billion.   |
| 4/28/2011<br>Board<br>meeting | <p>Approved the 2010 Business Report and financial statements.</p> <p>Approved the earning distribution proposal for 2010 with cash dividend of NT\$0.665 per share.</p> <p>Approved the 2010 Statement of Declaration on Internal Control System.</p> <p>Approved the withdrawal of the resolution passed at the 2010 annual shareholders' meeting regarding the issuance of common shares for cash capital increase either through public placement book building or private placement, due to the decision not to issue the shares.</p> <p>Approved the partial amendments to the Handling Procedure for Loans to Third Parties.</p> <p>Approved the partial amendments to Procedure for Providing Guarantees.</p> <p>Approved the partial amendments to the Company's Articles of Incorporation.</p> <p>Approved the waiving of non-competition clauses applicable to directors.</p> <p>Reported the review of shareholder proposals.</p> <p>Approved the amendments to the agenda and topics for Company's annual shareholders' meeting for 2011.</p> <p>Approved the waiving of non-competition clauses applicable to managerial officers.</p> |

**3.3.10 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors : None**

**3.3.11 Resignation or Dismissal of Personnel Involved in Preparation of Financial Reports : None**

**3.4 Changes in Shareholding of Directors, Supervisors, Managers and Major Shareholders : (Unit : Share)**

| Title      | Name                | 2009                        |                                     | As of Apr. 30, 2010         |                                     |
|------------|---------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|            |                     | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| Chairman   | Judy Lee            | 0                           | (1,922,000)                         | 3,449,000                   | (15,986,803)                        |
| Director   | Tony Ho             | (5,000,000)                 | (8,028,000)                         | 3,000,000                   | (24,081,590)                        |
| Director   | George Hsu          | 0                           | 0                                   | 220,000                     | 0                                   |
| Director   | Robin Ho            | 0                           | 0                                   | 360,000                     | 0                                   |
| Director   | Li-Hsiung Co., Ltd. | 0                           | (2,200,000)                         | 0                           | (2,273,000)                         |
| Supervisor | Tsai-Chi Co., Ltd.  | 0                           | 8,825,000                           | 0                           | (14,686,000)                        |
| President  | Sophia Tong         | 0                           | 0                                   | 600,000                     | 0                                   |
| VP         | John Peng           | (500,000)                   | (500,000)                           | 392,000                     | 0                                   |
| VP         | Hannis Chang        | (530,000)                   | 0                                   | 220,000                     | 0                                   |
| VP         | Gillian Joe         | 0                           | 0                                   | 0                           | 0                                   |
| VP         | Alfred Chang        | (140,000)                   | 0                                   | 0                           | 0                                   |

| Title | Name             | 2009                        |                                     | As of Apr. 30, 2010         |                                     |
|-------|------------------|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
|       |                  | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) | Holding Increase (Decrease) | Pledged Holding Increase (Decrease) |
| VP    | Peter Dong       | (40,000)                    | 0                                   | 150,000                     | 0                                   |
| VP    | Lawrence Wu      | (36,000)                    | 0                                   | 73,000                      | 0                                   |
| VP    | Jane Peng        | 0                           | 0                                   | 0                           | 0                                   |
| VP    | Bob Yueh         | (100,000)                   | 0                                   | (10,000)                    | 0                                   |
| VP    | Edward Kao       | 0                           | 0                                   | 0                           | 0                                   |
| VP    | Paul Wang        | 0                           | 0                                   | 0                           | 0                                   |
| VP    | Tracy Tsai       | 0                           | 0                                   | 0                           | 0                                   |
| VP    | Marshall Cheng   | 0                           | 0                                   | 0                           | 0                                   |
| VP    | James Pong       | 0                           | 0                                   | 0                           | 0                                   |
| VP    | Eva Ho           | 30,000                      | 0                                   | 220,000                     | 0                                   |
| VP    | Spencer Lee      | 0                           | 0                                   | 0                           | 0                                   |
| VP    | Angeli Chan      | 0                           | 0                                   | 0                           | 0                                   |
| VP    | James Lo         | 0                           | 0                                   | 0                           | 0                                   |
| VP    | Winnie Teng      | 0                           | 0                                   | 0                           | 0                                   |
| VP    | Kelly Ho         | 0                           | 0                                   | 360,000                     | 0                                   |
| VP    | CC Fan           | 0                           | 0                                   | 0                           | 0                                   |
| AVP   | Alex Yu          | (95,000)                    | 0                                   | 0                           | 0                                   |
| AVP   | Lancy Wu         | (1,000)                     | 0                                   | 55,000                      | 0                                   |
| AVP   | Shelly Chen      | (25,000)                    | 0                                   | 25,000                      | 0                                   |
| AVP   | Linda Lin        | (36,000)                    | 0                                   | 175,000                     | 0                                   |
| AVP   | Monica Chen      | (25,000)                    | 0                                   | 40,000                      | 0                                   |
| AVP   | Frank JF Chang   | 0                           | 0                                   | 0                           | 0                                   |
| AVP   | Jack Chang       | 0                           | 0                                   | 168,000                     | 0                                   |
| AVP   | Constance Chuang | 0                           | 0                                   | 0                           | 0                                   |
| AVP   | Eric Chang       | 0                           | 0                                   | 245,000                     | 0                                   |
| AVP   | Arthur Chen      | 0                           | 0                                   | 40,000                      | 0                                   |
| AVP   | Gino Chen        | 0                           | 0                                   | 0                           | 0                                   |

**3.4.1 Shares Trading with Related Parties : None.**

**3.4.2 Shares Pledge with Related Parties : None.**

### 3.5 Information Disclosing the Relationship between any of the Company's Top Ten Shareholders

As of 4/19/2011

| Name   | Shareholding |      | Spouse & Minor |      | Shareholding by Nominee Arrangement |   | The relationship between any of the Company's Top Ten Share holders |                     | Remarks % |
|--|--------------|------|----------------|------|-------------------------------------|---|---|---------------------|-----------|
|  | Shares       | %    | Shares         | %    | Shares                              | % | Name  | Relation            |           |
| Tony Ho  | 42,682,905   | 8.27 | 36,050,614     | 6.98 | -                                   | - | Judy Lee  | Spouse              | -         |
| Judy Lee   | 36,050,614   | 6.98 | 42,682,905     | 8.27 | -                                   | - | Tony Ho   | Spouse              | -         |
| Tsai-Chi Co., Ltd.<br>Representative: Ms. Lee, Li-Heng   | 31,362,873   | 6.07 | -              | -    | -                                   | - | Tony Ho<br>Judy Lee   | Substantive sponsor | -         |
| Up Master Investment Co., Ltd.<br>Representative: Ms. Lee, Ai-Chen                                 | 23,355,880   | 4.52 | -              | -    | -                                   | - | Tony Ho<br>Judy Lee   | Substantive sponsor | -         |
| Chang Qiu Dun  | 22,045,000   | 4.27 | -              | -    | -                                   | - | -   | -                   | -         |
| Chang Lin Rui Feng   | 18,100,915   | 3.51 | -              | -    | -                                   | - | -   | -                   | -         |
| Li-Hsiung Co., Ltd.<br>Representative: Ms. Lee, Ai-Chen  | 13,022,769   | 2.52 | -              | -    | -                                   | - | Tony Ho<br>Judy Lee   | Substantive sponsor | -         |
| The Taiwan Fund, Inc.  | 10,622,000   | 2.06 | -              | -    | -                                   | - | -   | -                   | -         |
| JPMorgan Chase Bank N.A. Taipei Branch in custody for FTIF-Templeton Global Smaller Companies Fund | 9,469,576    | 1.83 | -              | -    | -                                   | - | -   | -                   | -         |
| JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank                                  | 8,457,000    | 1.64 | -              | -    | -                                   | - | -   | -                   | -         |

### 3.6 Long-term Investment Ownership

As of 12/31/2010 ; Unit : share ; %

| Long-term Investment                             | Ownership by Test Rite |         | Direct/Indirect Ownership by Directors and Management |         | Total Ownership |         |
|--|------------------------|---------|---|---------|-----------------|---------|
|  | Shares                 | %       | Shares  | %       | Shares          | %       |
| Test-Rite Retail Co., Ltd.                       | 24,999,999             | 25.00%  | 75,000,001  | 75.00%  | 100,000,000     | 100.00% |
| Test-Rite Home Service Co., Ltd.                 | 0                      | 0.00%   | 13,600,000  | 100.00% | 13,600,000      | 100.00% |
| Hola Homefurnishings Co., Ltd.                   | 0                      | 0.00%   | 30,000  | 100.00% | 30,000          | 100.00% |
| Homy Homefurnishings Co., Ltd.                   | 0                      | 0.00%   | 30,000  | 100.00% | 30,000          | 100.00% |
| Freer Inc.                                       | 0                      | 0.00%   | 30,000  | 100.00% | 30,000          | 100.00% |
| Tong Lung Metal Industry Co., Ltd.               | 54,009,774             | 64.91%  | 2,080,402   | 2.50%   | 56,090,176      | 67.41%  |
| Chung Cin Enterprise Co., Ltd.                   | 69,000,000             | 100.00% | 0   | 0.00%   | 69,000,000      | 100.00% |
| Test Cin M&E Engineering Co., Ltd.               | 0                      | 0.00%   | 3,250,000   | 100.00% | 3,250,000       | 100.00% |
| Tony Construction Co., Ltd.                      | 0                      | 0.00%   | 23,000,000  | 100.00% | 23,000,000      | 100.00% |
| Tony Investment Co., Ltd.                        | 0                      | 0.00%   | 2,000,000   | 100.00% | 2,000,000       | 100.00% |
| Chung Cin Interior Design Construction Co., Ltd. | 0                      | 0.00%   | 1,200,000   | 100.00% | 1,200,000       | 100.00% |
| B&S Link Co., Ltd.                               | 5,000,000              | 100.00% | 0   | 0.00%   | 5,000,000       | 100.00% |
| Coalue Consultant Co., Ltd.                      | 0                      | 0.00%   | 400,000   | 80.00%  | 400,000         | 80.00%  |
| Lih Teh International Co., Ltd.                  | 16,269,479             | 100.00% | 0   | 0.00%   | 16,269,479      | 100.00% |
| Lih Chiou Co., Ltd.                              | 419,414,000            | 100.00% | 0   | 0.00%   | 419,414,000     | 100.00% |
| Fusion International Distribution, Inc.          | 5,499,838              | 100.00% | 0   | 0.00%   | 5,499,838       | 100.00% |
| Test-Rite Pte. Ltd.                              | 3,520,000              | 100.00% | 0   | 0.00%   | 3,520,000       | 100.00% |
| Test-Rite Int'l (Thailand) Ltd.                  | 220,494                | 48.99%  | 2   | 0.00%   | 220,496         | 49.00%  |
| Test-Rite Vietnam Co., Ltd.                      | 700,000                | 100.00% | 0   | 0.00%   | 700,000         | 100.00% |
| Test-Rite Product (Hong Kong) Ltd.               | 9,999                  | 100.00% | 0   | 0.00%   | 9,999           | 100.00% |
| Test-Rite Int'l (U.S.) Co., Ltd.                 | 631.1                  | 49.00%  | 0   | 0.00%   | 631.1           | 49.00%  |
| Test-Rite Canada Co., Ltd.                       | 700,000                | 100.00% | 0   | 0.00%   | 700,000         | 100.00% |
| Test Rite de Mexico, S.A. de C.V.                | 1,778,909.50           | 49.00%  | 0   | 0.00%   | 1,778,909.50    | 49.00%  |
| Test-Rite Int'l (Australia) Pty Ltd.             | 1,000,000              | 100.00% | 0   | 0.00%   | 1,000,000       | 100.00% |
| Test-Rite (UK) Co., Ltd.                         | 843,130                | 100.00% | 0   | 0.00%   | 843,130         | 100.00% |
| Test-Rite Development Co., Ltd.                  | 9,670,000              | 100.00% | 0   | 0.00%   | 9,670,000       | 100.00% |
| Test-Rite Fortune Co., Ltd.                      | 186,086.11             | 100.00% | 0   | 0.00%   | 186,086.11      | 100.00% |
| Test-Rite Star Co., Ltd.                         | 1,089,000              | 100.00% | 0   | 0.00%   | 1,089,000       | 100.00% |
| Test-Rite Investment Co., Ltd.                   | 500,000                | 100.00% | 0   | 0.00%   | 500,000         | 100.00% |
| Test-Rite Retailing Co., Ltd.                    | 68,331,000             | 100.00% | 0   | 0.00%   | 68,331,000      | 100.00% |
| Test-Rite Trading Co., Ltd.                      | 32,126,495             | 100.00% | 0   | 0.00%   | 32,126,495      | 100.00% |
| B&S Link Co., Ltd. (Cayman)                      | 900,000                | 100.00% | 0   | 0.00%   | 900,000         | 100.00% |
| Fortune Miles Co., Ltd.                          | 30,000                 | 100.00% | 0   | 0.00%   | 30,000          | 100.00% |
| TRS Investment Co., Ltd.                         | 2,275,590.58           | 100.00% | 0   | 0.00%   | 2,275,590.58    | 100.00% |

## IV. Capital Overview

### 4.1 Capital and Shares

#### 4.1.1 Source of Capital

##### A. Issued Shares

As of 04/19/2011

| Month / Year | Par Value (NTD) | Authorized Capital |              | Paid-in Capital |              | Remark   |   |       |
|--------------|-----------------|--------------------|--------------|-----------------|--------------|--|---|-------|
|              |                 | Shares             | Amount (NTD) | Shares          | Amount (NTD) | Sources of Capital   | Capital Increased by Assets Other than Cash | Other |
| 67.07        | 10              | 200,000            | 2,000,000    | 200,000         | 2,000,000    | Initial issue NT\$2,000,000  | -   |       |
| 70.12        | 10              | 700,000            | 7,000,000    | 700,000         | 7,000,000    | Capital injection NT\$5,000,000  | -   |       |
| 72.09        | 10              | 1,700,000          | 17,000,000   | 1,700,000       | 17,000,000   | Capital injection NT\$5,800,000<br>Capitalization of earnings NT\$4,200,000  | -   |       |
| 73.12        | 10              | 4,700,000          | 47,000,000   | 4,700,000       | 47,000,000   | Capital injection NT\$25,000,000<br>Capitalization of earnings NT\$5,000,000 | -   |       |
| 76.10        | 10              | 8,000,000          | 80,000,000   | 8,000,000       | 80,000,000   | Capital injection NT\$9,400,000<br>Capitalization of earnings NT\$23,600,000 | -   |       |
| 78.11        | 10              | 19,000,000         | 190,000,000  | 19,000,000      | 190,000,000  | Capital injection 78,000,000<br>Capitalization of earnings NT\$32,000,000    | -   |       |
| 79.12        | 10              | 36,100,000         | 361,000,000  | 36,100,000      | 361,000,000  | Capital surplus NT\$171,000,000  | -   |       |
| 80.07        | 10              | 45,125,000         | 451,250,000  | 45,125,000      | 451,250,000  | Capital surplus NT\$90,250,000   | -   |       |
| 81.07        | 10              | 56,406,250         | 564,062,500  | 56,406,250      | 564,062,500  | Capitalization of earnings NT\$67,687,500<br>Capital surplus NT\$45,125,000  | -   |       |

|       |    |             |               |             |               |  |   |                           |
|-------|----|-------------|---------------|-------------|---------------|--|---|---------------------------|
| 82.08 | 10 | 100,000,000 | 1,000,000,000 | 71,018,816  | 710,188,160   | Capitalization of earnings<br>NT\$28,203,120<br>Capital surplus<br>NT\$112,812,500<br>Employee bonuses<br>NT\$5,110,040                                | - |                           |
| 83.08 | 10 | 150,000,000 | 1,500,000,000 | 116,137,660 | 1,161,376,600 | Capitalization of earnings<br>NT\$139,999,948<br>Employee bonuses<br>NT\$11,376,652<br>Capital surplus NT\$10,000,000<br>Capital injection 289,811,840 | - |                           |
| 84.07 | 10 | 150,000,000 | 1,500,000,000 | 129,400,000 | 1,294,000,000 | Capital surplus<br>NT\$116,137,660<br>Employee bonuses<br>NT\$16,485,740   | - |                           |
| 85.09 | 10 | 150,000,000 | 1,500,000,000 | 136,400,000 | 1,364,000,000 | Capital surplus NT\$64,700,000<br>Employee bonuses<br>NT\$5,300,000  | - |                           |
| 86.08 | 10 | 183,680,000 | 1,836,800,000 | 150,920,000 | 1,509,200,000 | Capitalization of earnings<br>NT\$13,640,000<br>Employee bonuses<br>NT\$8,800,000<br>Capital surplus<br>NT\$122,760,000                                | - | No : ( 86 ) 111752        |
| 87.07 | 10 | 230,000,000 | 2,300,000,000 | 167,600,000 | 1,676,000,000 | Capitalization of earnings<br>NT\$15,092,000<br>Employee bonuses<br>NT\$15,880,000<br>Capital surplus<br>NT\$135,828,000                               | - | No:( 087 )087118452       |
| 88.07 | 10 | 250,000,000 | 2,500,000,000 | 200,000,000 | 2,000,000,000 | Capitalization of earnings<br>NT\$301,680,000<br>Employee bonuses<br>NT\$22,320,000  | - | No : ( 088 )<br>088126231 |

|       |    |             |               |             |               |  |   |                            |
|-------|----|-------------|---------------|-------------|---------------|--|---|----------------------------|
| 89.10 | 10 | 370,000,000 | 3,700,000,000 | 233,500,000 | 2,335,000,000 | Capitalization of earnings<br>NT\$300,000,000<br>Employee bonuses<br>NT\$35,000,000                                      | - | No : ( 089 ) 135122        |
| 90.03 | 10 | 370,000,000 | 3,700,000,000 | 239,890,794 | 2,398,907,940 | CB conversion: NT\$63,907,940  | - | No : ( 90 )<br>09001094870 |
| 90.09 | 10 | 470,000,000 | 4,700,000,000 | 283,792,955 | 2,837,932,670 | Capitalization of earnings<br>NT\$280,029,350<br>Employee bonuses<br>NT\$34,000,000<br>CB conversion:<br>NT\$124,995,380 | - | No : ( 90 )<br>09001369620 |
| 90.11 | 10 | 470,000,000 | 4,700,000,000 | 287,242,245 | 2,872,422,450 | CB conversion: NT\$34,489,780  | - | No : ( 90 )<br>09001414970 |
| 91.01 | 10 | 470,000,000 | 4,700,000,000 | 287,970,127 | 2,879,701,270 | CB conversion: NT\$7,278,820   | - | No : 09101028620           |
| 91.03 | 10 | 470,000,000 | 4,700,000,000 | 292,106,179 | 2,921,061,790 | CB conversion: NT\$41,360,520  | - | No : 09101091570           |
| 91.05 | 10 | 470,000,000 | 4,700,000,000 | 292,126,587 | 2,921,265,870 | CB conversion: NT\$204,080   | - | No : 09101138780           |
| 91.08 | 10 | 550,000,000 | 5,500,000,000 | 344,989,749 | 3,449,897,490 | CB conversion:<br>NT\$200,142,040<br>Capitalization of earnings<br>NT\$285,593,580<br>Employee bonuses<br>NT\$42,896,000 | - | No : 09101339470           |
| 91.10 | 10 | 550,000,000 | 5,500,000,000 | 347,892,171 | 3,478,921,710 | CB conversion: NT\$29,024,220  | - | No : 09101433810           |
| 92.01 | 10 | 550,000,000 | 5,500,000,000 | 347,940,951 | 3,479,409,510 | CB conversion: NT\$ 487,800  | - | No : 09201019620           |
| 92.10 | 10 | 550,000,000 | 5,500,000,000 | 370,738,598 | 3,707,385,980 | Capitalization of earnings<br>NT\$173,970,470<br>Employee bonuses<br>NT\$54,006,000                                      | - | No : 09201288970           |
| 93.04 | 10 | 550,000,000 | 5,500,000,000 | 387,516,315 | 3,875,163,150 | CB conversion: 167,777,170   | - | No : 09301077730           |
| 93.10 | 10 | 550,000,000 | 5,500,000,000 | 392,676,369 | 3,926,763,690 | CB conversion: NT\$ 1,041,610<br>Employee bonuses<br>NT\$50,558,930  | - | No : 09301187640           |
| 94.01 | 10 | 550,000,000 | 5,500,000,000 | 397,311,347 | 3,973,113,470 | CB conversion: NT\$<br>46,349,780  | - | No : 09401009700           |
| 94.05 | 10 | 550,000,000 | 5,500,000,000 | 397,946,375 | 3,979,463,750 | CB conversion: NT\$6,350,280   | - | No : 09401087750           |

|       |    |             |               |             |               |  |   |                  |
|-------|----|-------------|---------------|-------------|---------------|--|---|------------------|
| 94.09 | 10 | 550,000,000 | 5,500,000,000 | 411,269,302 | 4,112,693,020 | Capitalization of earnings<br>NT\$73,589,270<br>Employee bonuses<br>NT\$59,640,000                                 | - | No : 09401189620 |
| 94.10 | 10 | 550,000,000 | 5,500,000,000 | 413,743,746 | 4,137,437,460 | CB conversion:NT\$24,744,440   | - | No : 09401212030 |
| 94.12 | 10 | 550,000,000 | 5,500,000,000 | 416,717,612 | 4,167,176,120 | CB conversion:NT\$29,738,660   | - | No : 09401246200 |
| 95.08 | 10 | 660,000,000 | 6,600,000,000 | 441,307,884 | 4,413,078,840 | CB conversion:NT\$173,910<br>Capitalization of earnings<br>NT\$193,358,810<br>Employee bonuses<br>NT\$52,370,000   | - | No : 09501194080 |
| 95.11 | 10 | 660,000,000 | 6,600,000,000 | 448,792,415 | 4,487,924,150 | CB conversion: NT\$<br>74,845,310  | - | No : 09501265640 |
| 96.03 | 10 | 660,000,000 | 6,600,000,000 | 448,864,578 | 4,488,645,780 | CB conversion: NT\$ 721,630  | - | No : 09601053530 |
| 96.09 | 10 | 660,000,000 | 6,600,000,000 | 448,916,123 | 4,489,161,230 | CB conversion: NT\$ 515,450  | - | No : 09601233820 |
| 96.12 | 10 | 660,000,000 | 6,600,000,000 | 465,243,433 | 4,652,434,330 | CB conversion:NT\$47,865,120<br>Capitalization of earnings<br>NT\$84,857,980<br>Employee bonuses<br>NT\$30,550,000 | - | No : 09601312360 |
| 97.09 | 10 | 660,000,000 | 6,600,000,000 | 473,666,067 | 4,736,660,670 | Capitalization of earnings<br>NT\$42,696,340<br>Employee bonuses<br>NT\$41,530,000                                 | - | No : 09701225500 |
| 98.09 | 10 | 660,000,000 | 6,600,000,000 | 481,222,872 | 4,812,228,720 | Capitalization of earnings<br>NT\$63,957,910<br>Employee bonuses<br>NT\$11,610,140                                 | - | No : 09801200020 |
| 98.10 | 10 | 660,000,000 | 6,600,000,000 | 531,222,872 | 5,312,228,720 | Capital injection<br>NT\$500,000,000   | - | No : 09801236000 |
| 99.09 | 10 | 660,000,000 | 6,600,000,000 | 516,422,872 | 5,164,228,720 | Cancellation of Treasury Stock<br>NT\$148,000,000  | - | No : 09901205520 |



## B. Type of Stock

| Share Type   | Authorized Capital |                |                  |              | Remarks |
|--------------|--------------------|----------------|------------------|--------------|---------|
|              | Issued Shares      | Treasury Stock | Un-issued Shares | Total Shares |         |
| Common Stock | 507,422,872        | 9,000,000      | 143,577,128      | 660,000,000  | -       |

C. Information for Shelf Registration : None.

### 4.1.2 Status of Shareholders

As of 4/19/2011

| Item                   | Gover<br>nment<br>Agenc<br>ies | Financial<br>Institutions | Other<br>Juridical<br>Person | Domestic<br>Natural<br>Persons | Foreign<br>Institutions<br>& Natural<br>Persons | Total       |
|------------------------|--------------------------------|---------------------------|------------------------------|--------------------------------|---|-------------|
| Number of Shareholders | 3                              | 5                         | 59                           | 28,289                         | 79  | 28,435      |
| Shareholding (shares)  | 101                            | 5,856,000                 | 105,226,797                  | 305,433,235                    | 99,906,739                                      | 516,422,872 |
| Percentage             | 0.00                           | 1.13                      | 20.38                        | 59.14                          | 19.35   | 100         |

### 4.1.3 Shareholding Distribution Status

A. Common Shares (The par value for each share is NT\$10)

As of 4/19/2011

| Class of Shareholding (Unit : Share) | Number of Shareholders | Shareholding (Shares) | Percentage |
|--------------------------------------|------------------------|-----------------------|------------|
| 1 - 999                              | 10,974                 | 2,396,365             | 0.464      |
| 1000 - 5000                          | 12,179                 | 28,295,674            | 5.479      |
| 5001 - 10000                         | 2,680                  | 22,256,518            | 4.31       |
| 10001 - 15000                        | 696                    | 8,889,787             | 1.721      |
| 15001 - 20000                        | 610                    | 11,541,430            | 2.235      |
| 20001 - 30000                        | 417                    | 10,968,762            | 2.124      |
| 30001 - 40000                        | 198                    | 7,210,457             | 1.396      |
| 40001 - 50000                        | 157                    | 7,440,035             | 1.441      |
| 50001 - 100000                       | 267                    | 19,780,213            | 3.83       |
| 100001 - 200000                      | 125                    | 17,567,065            | 3.402      |
| 200001 - 400000                      | 49                     | 13,749,673            | 2.662      |
| 400001 - 600000                      | 20                     | 9,419,180             | 1.824      |
| 600001 - 800000                      | 8                      | 5,782,527             | 1.12       |
| 800001 - 1000000                     | 11                     | 10,063,210            | 1.949      |
| 1000001 or over                      | 44                     | 341,061,976           | 66.043     |
| Total :                              | 28,435                 | 516,422,872           | 100        |

B. Preferred Shares : None.

#### 4.1.4 List of Major Shareholders

As of 4/19/2011

| Shareholder's Name | Shareholding |            |
|--------------------|--------------|------------|
|                    | Shares       | Percentage |
| Tony Ho            | 42,682,905   | 8.27       |
| Judy Lee           | 36,050,614   | 6.98       |
| Tsai-Chi Co., Ltd. | 31,362,873   | 6.07       |

#### 4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: NT\$

| Item                   |                                     |                                  | 2009        | 2010        | 1/1/2011-3/31/2011 |
|------------------------|-------------------------------------|----------------------------------|-------------|-------------|--------------------|
| Market Price per Share | Highest Market Price                |                                  | 18.7        | 25.85       | 23.60              |
|                        | Lowest Market Price                 |                                  | 14.10       | 15.70       | 20.50              |
|                        | Average Market Price                |                                  | 15.57       | 20.31       | 21.87              |
| Net Worth per Share    | Before Distribution                 |                                  | 11.36       | 12.28       | 13.83              |
|                        | After Distribution                  |                                  | 11.36       | 12.28       | 13.83              |
| Earnings per Share     | Weighted Average Shares             |                                  | 447,230,543 | 483,942,872 | 507,422,872        |
|                        | Diluted Earnings Per Share          |                                  | 0.31        | 1.01        | 0.51               |
| Dividends per Share    | Cash Dividends                      |                                  | 0.26        | 0.665       | -                  |
|                        | Stock Dividends                     | Dividends from Retained Earnings | -           | -           | -                  |
|                        |                                     | Dividends from Capital Surplus   | -           | -           | -                  |
|                        | Accumulated Undistributed Dividends |                                  | -           | -           | -                  |
| Return on Investment   | Price / Earnings Ratio (Note)       |                                  | 50.23       | 20.11       | -                  |
|                        | Price / Dividend Ratio (Note)       |                                  | 59.88       | 30.54       | -                  |
|                        | Cash Dividend Yield Rate (Note)     |                                  | 1.67%       | 3.27%       | -                  |

Note 1 : Price / Earnings Ratio = Average Market Price / Earnings per Share ; Price / Dividend Ratio = Average Market Price / Cash Dividends per Share ; Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

#### **4.1.6 Dividend Policy and Implementation Status**

##### **A. Dividend Policy**

The landscape of the industry in which the Company engages business in contains various risks and uncertainties. As the life cycle of the Company's development enters the stable and mature phase and taking into account the Company's diversification, future operating plans, capital requirements and long-term financial planning, as well as considering shareholders' interests, our dividend policy shall be formulated in accordance with the provisions of the Company Act and other relevant regulatory requirements to ensure the soundness and balance of dividend distribution. The distribution of dividends to shareholders shall be conducted via the following three methods: earned surplus-turned capital increase, capital reserve-turned capital increase and cash dividends. Here cash dividends may not be less than ten percent of the total dividends, although in the event that the cash dividend is less than NT\$0.1 per share, no cash dividends will be distributed and instead the dividends will be distributed via stock dividends.

##### **B. Proposed Distribution of Dividend**

The Company's audited 2010 financial statements indicate that the net profit totaled to NT\$486,817,686, and together with the retained earnings of NT\$1,442,918 in the previous years, less NT\$112,772,393 for the cancellation of treasury shares, and the allocated statutory surplus reserve of NT\$37,548,821, the surplus available for distribution was NT\$337,939,390.

The Company intends to allocate shareholder's dividends in the amount of NT\$337,436,210 in accordance with the provisions of the Articles of Incorporation (with priority given to the allocation of earnings of the current year). With the total number of shares issued as of April 19, 2011 (ex-dividend date) being 516,422,872 shares, net of 9,000,000 treasury shares, the total actual number of outstanding shares is determined to be 507,422,872, and consequently the cash dividend per share is NT\$0.665.

#### **4.1.7 Employee Bonus and Directors' and Supervisors' Remuneration**

- A. As pursuant of the Company Act and Article of Incorporation, the Company, after reporting positive earnings for a given fiscal year and paying applicable taxes, should first reserve its earnings to cover any losses from prior years. Thereafter, the company should reserve 10% of its earnings for legal reserve before allocating no less than 2% of its earnings for employee bonus, and 2% of its earnings for the salary for the Board of Directors and Supervisors.
- B. A portion or all of employees' bonus can be issued via new shares, but within the pre-approved ratio according the company's Article of Incorporation. The Chairman can decided, which employees of the company will receive employee stock bonus, once their eligibility is confirmed.

C. On April 28th, 2011, the Board of Directors approved employee cash bonus of NT\$ 27,035,151 and total salary for the Board of Directors and Supervisors of NT\$6,758,788.

| Items for Distribution                                  | As proposed by the Board (A) | Estimated expense (B) | Difference (A)-(B) | Remark  |
|---|------------------------------|-----------------------|--------------------|---|
| Employee cash bonus                                     | 27,035,151                   | 28,800,000            | 1,764,849          | Difference is between estimate and actual expense. Since, the difference is minor, the amount will be applied to 2011 earnings. |
| Total salary for the Board of Directors and Supervisors | 6,758,788                    | 7,300,000             | 541,212            |   |

D. The actual allocation of employee dividends and remuneration to directors and supervisors in the previous year compared with the distribution plan originally approved by the Board: The Company's earning distribution for fiscal year 2009 was approved at the annual shareholders' meeting on June 15, 2010. Remuneration to directors and supervisors accounted for NT\$2,461,890 and employee bonuses amounted to NT\$9,847,560, both of which were paid out in cash.

#### 4.1.8 Buyback of Treasury Stock

As of 04/19/2011

| Treasury stocks in Batches                  | 8th Batch             | 9th Batch             | 10th Batch            |
|---|-----------------------|-----------------------|-----------------------|
| Purpose of Buy-back                         | Transfer to employees | Transfer to employees | Transfer to employees |
| Timeframe of Buy-back                       | 96/07/03~96/09/02     | 96/12/26~96/02/25     | 97/10/13~97/11/11     |
| Price range                                 | NTD19~25              | NTD18~25              | NTD15~22              |
| Class, quantity of shares bought back       | 14,800,000            | 23,480,000            | 9,000,000             |
| Value in KNT\$ of bought-back shares        | 333,001,281           | 467,366,912           | 137,765,957           |
| Shares sold/transferred                     | 14,800,000            | 23,480,000            | 0                     |
| Accumulated number of company shares held   | 0                     | 0                     | 9,000,000             |
| Percentage of total company shares held (%) | 0                     | 0                     | 1.74%                 |

**4.2 Employee Stock Options : None.**

**4.3 Status of New Shares Issuance in Connection with Mergers and Acquisitions : None.**

**4.4 Financing Plans and Implementation : None.**

## **V. Operational Highlights**

### **5.1 Business Activities**

#### **5.1.1 Business Scope**

(1)

- 1.E605010 Computing Equipments Installation Construction
- 2.E801010 Building Maintenance and Upholstery
- 3.F101081 Wholesale of Seedling
- 4.F101100 Wholesale of Flowers
- 5.F101120 Wholesale of Aquarium Fishes
- 6.F101130 Wholesale of Vegetable and Fruits
- 7.F102020 Wholesale of Edible Oil
- 8.F102030 Wholesale of Tobacco Products and Alcoholic Beverages
- 9.F102040 Wholesale of Nonalcoholic Beverages
- 10.F102170 Wholesale of Food and Grocery
- 11.F103010 Wholesale of Animal Feeds
- 12.F104110 Wholesale of Cloths, Clothes, Shoes, Hat, Umbrella and Apparel,  
Clothing Accessories and Other Textile Products
- 13.F105050 Wholesale of Furniture, Bedclothes Kitchen Equipment and Fixtures
- 14.F106010 Wholesale of Ironware
- 15.F106020 Wholesale of Articles for Daily Use
- 16.F106030 Wholesale of Die
- 17.F106040 Wholesale of Water Containers
- 18.F106050 Wholesale of Pottery, Porcelain and Glassware
- 19.F107030 Wholesale of Cleaning Preparations
- 20.F107050 Wholesale of Manure
- 21.F108040 Wholesale of Cosmetics
- 22.F109070 Wholesale of Stationery Articles, Musical Instruments and  
Educational Entertainment Articles
- 23.F110010 Wholesale of Clocks and Watches
- 24.F110020 Wholesale of Spectacles
- 25.F111090 Wholesale of Building Materials
- 26.F113010 Wholesale of Machinery
- 27.F113020 Wholesale of Household Appliance
- 28.F113030 Wholesale of Precision Instruments
- 29.F113050 Wholesale of Computing and Business Machinery Equipment
- 30.F113060 Wholesale of Metrological Instruments
- 31.F113070 Wholesale of Telecom Instruments
- 32.F113090 Wholesale of Traffic Signal Equipments and Materials
- 33.F114010 Wholesale of Automobiles
- 34.F114020 Wholesale of Motorcycles
- 35.F114030 Wholesale of Motor Vehicle Parts and Supplies
- 36.F114040 Wholesale of Bicycle Parts and Supplies
- 37.F115010 Wholesale of Jewelry and Precious Metals
- 38.F116010 Wholesale of Photographic Equipment
- 39.F118010 Wholesale of Computer Software

40.F119010 Wholesale of Electronic Materials  
 41.F199990 Other Wholesale Trade  
 42.F201010 Retail sale of Agricultural Products  
 43.F201020 Retail sale of Husbandry Products  
 44.F201061 Retail sale of Seedling  
 45.F201070 Retail sale of Flowers  
 46.F201090 Retail Sale of Aquarium Fishes  
 47.F202010 Retail sale of Animal Feeds  
 48.F203020 Retail Sale of Tobacco and Alcoholic Drinks  
 49.F204110 Retail sale of Cloths, Clothes, Shoes, Hat, Umbrella and Apparel,  
 Clothing Accessories and Other Textile Products  
 50.F205040 Retail sale of Furniture, Bedclothes, Kitchen Equipment and  
 Fixtures  
 51.F206010 Retail Sale of Ironware  
 52.F206020 Retail Sale of Articles for Daily Use  
 53.F207030 Retail Sale of Cleaning Preparations  
 54.F207050 Retail Sale of Manure  
 55.F208040 Retail Sale of Cosmetics  
 56.F209060 Retail sale of Stationery Articles, Musical Instruments and  
 Educational Entertainment Articles  
 57.F210010 Retail Sale of Watches and Clocks  
 58.F210020 Retail Sale of Spectacles  
 59.F211010 Retail Sale of Building Materials  
 60.F213010 Retail Sale of Household Appliance  
 61.F213030 Retail sale of Computing and Business Machinery Equipment  
 62.F213040 Retail Sale of Precision Instruments  
 63.F213050 Retail Sale of Metrological Instruments  
 64.F213080 Retail Sale of Other Machinery and Equipment  
 65.F214010 Retail Sale of Automobiles  
 66.F214030 Retail Sale of Motor Vehicle Parts and Supplies  
 67.F214040 Retail Sale of Bicycles and Parts  
 68.F215010 Retail Sale of Jewelry and Precious Spectacles Metals  
 69.F216010 Retail Sale of Photographic Equipment  
 70.F218010 Retail Sale of Computer Software  
 71.F299990 Retail Sale of Other Retail Trade Not Elsewhere Classified  
 72.F301020 Supermarkets  
 73.F399040 Retail Business Without Shop  
 74.F399010 Supermarkets  
 75.F401010 International Trade  
 76.F401071 Export and Import of Seedling  
 77.F501060 Restaurants  
 78.G801010 Warehousing and Storage  
 79.H701020 Industrial Factory Buildings Lease Construction and Development  
 80.H701010 Residence and Buildings Lease Construction and Development  
 81.H703090 Real Estate Commerce

- 82.H703100 Real Estate Rental and Leasing
- 83.I102010 Investment Consultancy
- 84.I103060 Management Consulting Services
- 85.I301010 Software Design Services
- 86.I301020 Data Processing Services
- 87.I301030 Digital Information Supply Services
- 88.I401010 General Advertising Services
- 89.I501010 Product Designing
- 90.I503010 Landscape and Interior Designing
- 91.IZ99990 Other Industry and Commerce Services Not Elsewhere Classified
- 92.J801030 Athletics and Recreational Sports Stadium
- 93.JE01010 Rental and Leasing Business
- 94.ZZ99999 Except the permitted business, the Company may engage in other businesses not prohibited or restricted by laws and regulations

(2) Percentage of total revenue of each product or service

(Unit : NTD thousand)

| Main Item         | Sale of 2010 | percentage ( % ) |
|-------------------|--------------|------------------|
| House ware        | 6,823        | 59.26            |
| Hard Line         | 1,848        | 16.05            |
| Electrical        | 498          | 4.32             |
| Seasonal & others | 2,345        | 20.37            |
| Subtotal          | 11,514       | 100              |

- (3) Currently the Company's main products (services) are as follows: The Company engages in the import and export of household products, including DIY hand tools, hardware, ceiling fans, lighting fixtures and other electrical appliances, bathroom facilities, indoor/outdoor furniture, and other household items.

(4) New products (services) under development:

1. Development of effort-saving hand tools and related products: Hand tools remain one of the major categories of products shipped by the Company and accounted for approximately 30% of total export amount in 2010. In addition to the providing comprehensive features in professional tools, effort-saving is a major point of consideration for consumers. With the principles of structural mechanics and leverage, the design of hand tools must take into account not only the innovative appearance but also ergonomics in order to meet market demand.

2. Development energy-saving lamps and related products:

The advocacy for energy conservation is no longer merely a slogan in Europe and North America. Governments have incorporated relevant measures into legislations and policies to encourage investments by private enterprises. Lamps and light fixtures are also a category of products exported by the Company. Apart from the modern designs of their exterior, lamps shipped by the Company contain automatic cut-off loop control circuitry to prevent consumers from misusing light bulbs that do not conform to the correct specifications and wasting energy; this helps to put the concept of energy conservation into practice effectively in product design.

### 5.1.2 Industry Overview

#### (1) Current status and development of the industry

The Company was founded in the August, 1978. During its earlier years, the Company focused on the export of hand tools and hardware. As the Company's customer base expanded, the product offerings also increased, including DIY hand tools and hardware to ceiling fans, light fixtures and other electrical appliances, bathroom equipment, indoor/outdoor furniture and other household items. The Company also gradually expanded operations into Southeast Asia (Thailand and Singapore), Europe (Germany and the U.K.) and Australia by setting up subsidiaries, representative offices or branch offices. With established branches in the U.S. and Hong Kong, the Company was able to provide support for sales and services with the advantages of proximity. Beginning in 1989 the Company expanded the domestic retail market and started to market products originally exclusively for export at home. A domestic sales department was established as a result and began to supply several thousands types of products to major discount stores around the country. Below we describe the industries in which the Company engages by trading business and by main product category:

##### 1. Current status of trading business

Being a small island with very limited natural resources, trading has been Taiwan's primary route and strategy for economic development since Dutch rule and the era of Koxinga. Following the Nationalist Government's withdrawal to Taiwan from mainland China and four decades of growth, the people of the island created what later became known as the Taiwan economic miracle. The growth phase propelled Taiwan's economic prosperity and is recognized as one of the "Four Asian Tigers". These achievements did not come easily. Over the past 40 years, to keep pace with the requirements of the country's overall economic development and changes in the economic landscape at home and abroad, Taiwan's foreign trade policy has seen numerous changes. From the early import-substitution policy and export expansion policy in the 1960s to the current policy of trade liberalization, internationalization and institutionalization, the country has successfully achieved rapid trade expansion. Apart from the year 2009, when the impact of the global financial crisis was felt, the growth of Taiwan's trade has been quite healthy. During a period of 18 years spanning from 1993 to 2010, Taiwan's total external trade has experienced a substantial growth (see table below). Foreign trade has indeed become the main driving force behind Taiwan's economic development. In recent years, trading activities with mainland China have become more and more important. In 2010 Taiwan's the amount of export to China accounted for 28% of the island's total exports, and import from China amounted to 14% of total imports. Test Rite Group has aggressively expanded its presence in China. Since Shanghai trading subsidiary was founded in 2005, the Group has penetrated China and built a solid relationship with Chinese suppliers. With China's fast pace of economic development, it is hoped that the Company's trading business will be able to gain access to sales channels on both sides of the Taiwan Strait and become agents of international



brands that seeks to gain access to the rapidly growing consumer market in Taiwan and China.

| Import/Export Amounts by Year - Taiwan |               |                        |               |                        | (Unit : USD 100million) |                           |
|--|---------------|------------------------|---------------|------------------------|-------------------------|---------------------------|
| Year                                   | Total exports | Export Growth rate (%) | Total imports | Import Growth rate (%) | Total amount of trade   | Total trade growth rate % |
| 1993                                   | 851           | 4.44                   | 771           | 7.02                   | 1632                    | 5.67                      |
| 1994                                   | 930           | 9.35                   | 853           | 10.76                  | 1784                    | 9.99                      |
| 1995                                   | 1117          | 20.00                  | 1035          | 21.33                  | 2152                    | 20.62                     |
| 1996                                   | 1159          | 3.84                   | 1024          | -1.14                  | 2183                    | 1.44                      |
| 1997                                   | 1221          | 5.29                   | 1144          | 11.78                  | 2365                    | 8.33                      |
| 1998                                   | 1106          | -9.42                  | 1047          | -8.53                  | 2152                    | -9.01                     |
| 1999                                   | 1216          | 9.96                   | 1107          | 5.76                   | 2323                    | 7.95                      |
| 2000                                   | 1483          | 21.98                  | 1400          | 26.49                  | 2883                    | 24.11                     |
| 2001                                   | 1229          | -17.16                 | 1072          | -23.41                 | 2301                    | -20.19                    |
| 2002                                   | 1306          | 6.29                   | 1125          | 4.94                   | 2431                    | 5.65                      |
| 2003                                   | 1442          | 10.41                  | 1273          | 13.16                  | 2715                    | 11.68                     |
| 2004                                   | 1740          | 20.67                  | 1679          | 31.89                  | 3419                    | 25.93                     |
| 2005                                   | 1984          | 14.02                  | 1826          | 8.76                   | 3810                    | 11.44                     |
| 2006                                   | 2240          | 12.90                  | 2027          | 11.01                  | 4267                    | 11.99                     |
| 2007                                   | 2466          | 10.12                  | 2193          | 8.17                   | 4659                    | 9.19                      |
| 2008                                   | 2556          | 3.63                   | 2404          | 9.67                   | 4960                    | 6.46                      |
| 2009                                   | 2037          | -20.3                  | 1744          | -27.5                  | 3781                    | -23.77                    |
| 2010                                   | 2,746         | 34.8                   | 2,514         | 44.2                   | 5,260                   | 39.12                     |

Source : Department of Statistics, Ministry of Finance, R.O.C.

The implications of foreign trade environment are complicated compared to other industries; the major factors that affect trading business include: Exchange rate fluctuations and non-economic barriers to trade (i.e., policy, trade protectionism, customs, and regional alliances). The fluctuations of exchange rates can be regarded as main factor affecting the offset of import/export trade amounts and changes in profitability, and non-economic barriers to trade contribute to the restriction on the conditions and extent of overseas market expansion; However, with the collapse of the Soviet Union, the world has entered the post-Cold War era, which has led to the formation of new economic and trading environments. Regional economic integration has become the mainstream of international trade and economic development at present. And with the proliferation of the World Trade Organization (WTO) memberships and the increasing frequency of cross-strait trades, the trading sector in Taiwan is now facing a new challenge. In the following we present our view of Taiwan's current trade development from the viewpoints of trade concentration, development of triangular trade, increasing sizes and internationalization of customers and the trends toward multi-function traders.

A、Degrees of export and import concentration have increased slightly and exchanges with Asian countries have become more frequent

According to statistics compiled by the Department of Statistics, Ministry of Finance, in 2010, Taiwan has developed closer trading relations with major partners such as China (including Hong Kong) and ASEAN countries. Exports to China for the year amounted to US\$114.75 billion and imports from China were valued at US\$37.58 billion. As for ASEAN nations, total exports were US\$41.36 billion and imports amounted to US\$28.84 billion. Both sets of figures represent record high trade volume, indicating that Taiwan has benefited from the stable economic development of Asian countries in 2010 and has developed closer ties with developing countries in terms of trade. Following the signing of ECFA, Taiwan's economic exchange with China has become more liberalized as well, which contributes to even more active cross-Straits trade activities.

| Regional trade concentration indicator |                       |              |              | (Unit : USD100million ; %)  |   |
|--|-----------------------|--------------|--------------|---|---|
| Year                                   | Total amount of trade | Export value | Import value | Taiwan - Top three countries with highest degrees of export concentration | Taiwan - Top three countries with highest degrees of import concentration |
| 1993                                   | 1622                  | 851          | 771          | 59.96   | 57.27   |
| 1994                                   | 1784                  | 930          | 853          | 59.99   | 55.79   |
| 1995                                   | 2152                  | 1117         | 1035         | 58.81   | 54.78   |
| 1996                                   | 2183                  | 1159         | 1024         | 58.06   | 48.27   |
| 1997                                   | 2365                  | 1221         | 1144         | 57.28   | 50.36   |
| 1998                                   | 2152                  | 1106         | 1047         | 57.44   | 50.02   |
| 1999                                   | 2323                  | 1216         | 1107         | 56.59   | 51.93   |
| 2000                                   | 2883                  | 1483         | 1400         | 53.26   | 47.36   |
| 2001                                   | 2301                  | 1229         | 1072         | 54.82   | 47.30   |
| 2002                                   | 2431                  | 1306         | 1125         | 55.77   | 51.88   |
| 2003                                   | 2715                  | 1442         | 1273         | 45.91   | 47.46   |
| 2004                                   | 3419                  | 1740         | 1679         | 40.89   | 48.80   |
| 2005                                   | 3810                  | 1984         | 1826         | 43.60   | 48.90   |
| 2006                                   | 4267                  | 2240         | 2027         | 54.26   | 46.24   |
| 2007                                   | 4659                  | 2466         | 2193         | 53.72   | 45.81   |
| 2008                                   | 4074                  | 2556         | 2404         | 51.00   | 43.36   |
| 2009                                   | 3781                  | 2037         | 1744         | 52.65   | 45.17   |
| 2010                                   | 5,260                 | 2,746        | 2,514        | 68.40   | 47.10   |

Source : Department of Statistics, Ministry of Finance, R.O.C.

In 2010, the top three countries/regions for Taiwan's exports are: China/Hong Kong, ASEAN countries, United States; the top three countries/regions from which Taiwan imports are: Japan, China/Hong Kong, ASEAN countries.

B、Proportion of triangular trade has increased

The majority of trading companies in Taiwan are small to medium in size and have in the past performed quite well due to their rich experience in foreign trade, knowledge and flexibility in operations, and as a result of the relative political stability of Taiwan in the past several decades compared with Southeast Asian countries and China

as well as the development of Taiwan's light industries. However, in recent years, labor-intensive industries have been relocated overseas and domestic industries have undergone rapid changes; In addition, China and Southeast Asian countries have gradually gained advantages in certain manufacturing sectors owing to their low labor costs. In addition to the fact that distributors and retailers are growing in size and becoming more internationalized, the supply and demand structure of the upstream and downstream sectors of trading companies in Taiwan have changed as a result. Trading companies must rely on triangular trade to seek cheaper resources from overseas markets in order to fill the void left by the loss of price competitiveness of some domestic products. They also need to meet the various criteria of large customers: types, quality and prices of products. This is the reason behind the increase in proportion of triangular trade.

C 、 Impact on Taiwan's trading sector due to the growth in size of manufacturers, trading companies and retailers

Following decades of industrial development both at home and abroad, some manufacturers have increased in size significantly. Large manufacturers are not only able to take advantage of its lower production costs but are also in a better position to establish closer relationships with key customers. This results in less space for survival among the smaller trading companies. In addition, large trading firms are also able leverage development of global trades to gain advantages on logistics and procurement capacity, thus threatening the very survival of smaller domestic trading companies, which begins to strive for regional distributorships for products with smaller produced quantity and with higher SKUs compared with other mainstream products.

The rapid development of sales channels has also contributed to the growth of large multinational retail chains. These large retailers have not only gained dominating powers; their transnational procurement activities have also contributed to domestic traders developing multinational logistics and procurement services, thus speeding the transformation or phasing out of smaller trading companies.

D 、 Trading firms are equipped with multiple functions such as after-sales services, warehousing and logistics

Due to the rise of major distributors and enterprise groups, the trend is moving toward the integration of marketing channels into large chain stores. Distributors with considerable size have also tilted the market toward buyers, prompting suppliers (including traders and manufacturers) to provide recommendations on the designs, development, financing and competitive strategies of products and retail outlets as well as customs clearance, distribution, delivery and after-sales service for end consumers. The role played by trading companies has diversified; they are no longer limited to taking orders, placing orders, or conduct long and short selling. They must now

transformed multifunctional team that contributes to product marketing, customer service, logistics and distribution, and financial strength.

Taiwan's trade industry is expected to benefit from the global economy gradually emerging from the shadow of the financial crisis and the hardest hit regions are showing signs of steady recovery. After ECFA signing with China, the economic ties between Taiwan and the mainland have increased significantly, and trade between the two sides is expected to gradually expand. Trading companies will be leveraging their rich experience in international trade to strengthen communication with customers and to conduct long-term and stable cooperation with players in the supply chain. Trading companies is also well positioned to benefit from to develop additional brand licensing opportunities to tap the fast growing demand of Chinese consumers.

In addition, as China's economy continues to expand at a rapid rate, labor costs are also seeing significant increases. Although China will remain the world's center of manufacturing and processing over the next few years, trading companies will need to adjust their procurement strategy and begin to evaluate alternative sourcing locations in order to adequately account for the risk of potential higher costs of operating in China.

## 2. Principal trading

With Test Rite positioning itself as a specialized trading company in "Household products market," the Company's major products consist of hand tools (including common hand tools, gardening tools and metal parts; which account for 30% of total revenue) and household items (including sanitary equipment, automotive repair supplies, fireplace equipment and supplies, furniture, Christmas gifts and barbecue utensils; which account for 60% of total revenue), making Test Rite the largest professional hand tools and household products trading company in Taiwan. Below we provide further analysis on the Company's key product offerings.

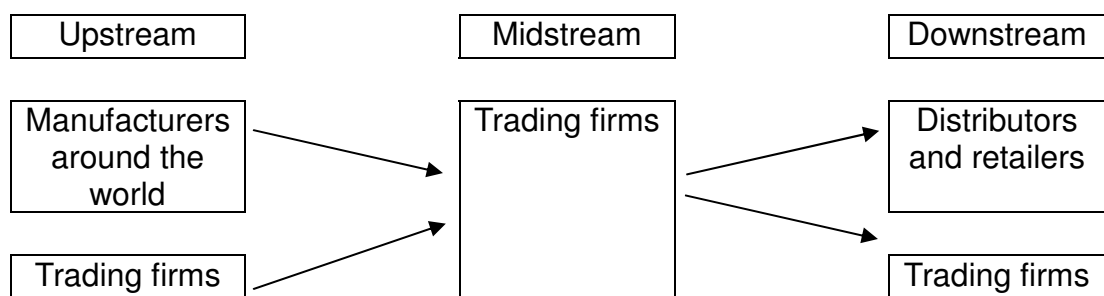
A higher degree of industrialization accounts for higher usage rates of hand tools and household products by consumers. Therefore, the regions with the highest demand for hand tools and household products are the developed countries, with North America and Europe representing nearly 70% of the export markets for hand tools. Typically, hand tools have been relatively stable and mature in terms of their types and forms, with relatively less needs for innovation. However, multifunction tools have enjoyed phenomenal growth in recent years. As for household products, as the industrial and commercial society places higher value for products that save time, allow personalization and offer multiple features, there is more room for improvement in terms of the design. However, in order to create market demand, there is a current trend that propels hand tools and household products in the direction of multiple functions/composite design, ergonomics and personalization. There are attempts to employ new materials on some products, join forces with pop culture for marketing purposes, or manufacture highly differentiated products in smaller quantities in order to create a market demand.

As for the sources of merchandise, since there are vast number of household products, most manufactures do not have brand and channel advantages, apart from certain manufacturers of brand-name bathroom and sanitary equipment and automotive repair supplies. They are also mostly small and medium enterprises. In terms of manufacturers of hand tools, Japanese and German companies possess dominant technologies, though Taiwan also enjoys a high degree of competitiveness at the global level. However, China, India, and countries in Southeast Asia and Eastern Europe have flourished in the hand tools industry in recent years, as they introduced low- to medium priced products. Although the export value of furniture, bedding and lighting equipment has been gradually declining over the years due to fierce competition in the market, in 2010 the industry has rebounded with the recovery of the economy. Since products in this category are quite mature, the size of the market remains considerable and major export destinations include North America and Asia. This year's economic outlook and pace of recovery remains stable, which is a positive indicator of demand for hand tools and household products. On the other hand, with the consumers engaging in more DIY activities and a growing emphasis on improving living standards, the market of general hand tools and household products are expected to see further growth.

(2) Industry's upstream, midstream, and downstream relationships

1. Trading industry's upstream, midstream, and downstream relationships

The main function of the trading industry is to broker trades and bridge gaps between supply and demand. Its upstream and downstream structures vary depending on the types of products traded. For example, the upstream, midstream, and downstream industrial structures of trading companies which deal with sales of manufactured end-product goods are as follows:

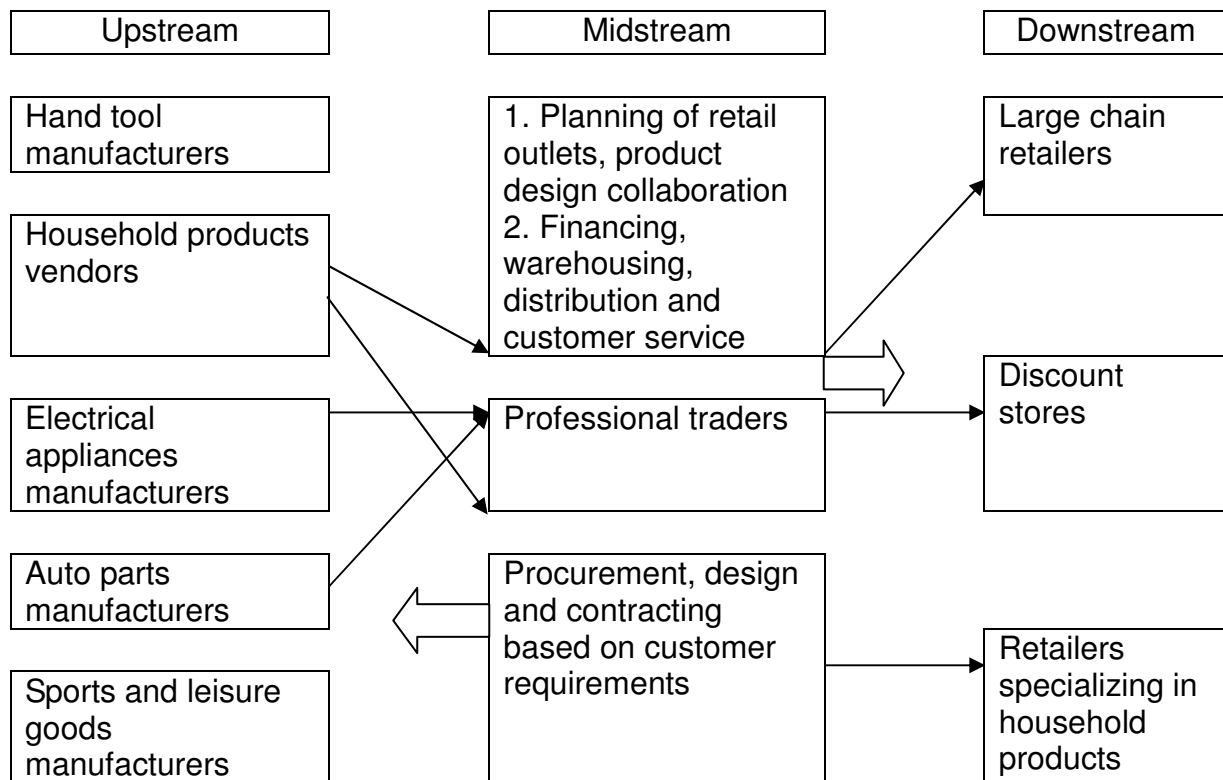


The so-called 'barriers to information access' is mainly geographic isolation and regulatory restrictions as well as the need of upstream and downstream vendors for working capital, as well as due to advantages to buyers or sellers resulting from product characteristics or channel structure. Disadvantaged parties are often faced with unfavorable payment terms. This situation requires trading companies to bridge the gap of potential sellers and potential buyers of products.

Due to the changes of the global industrial structure, the upstream procurement sources of some traders are no longer confined to only one country or one region. As a result, upstream procurement sources and downstream customers have also become quite different. Overall, today's trading companies play an increasingly important role in global economic activities and have deepening relationships with both upstream and downstream vendors than in the past.

## 2 、 Upstream, midstream and downstream relationships for hand tools and household products industries

The upstream suppliers of trading companies in hand tools and household products are the manufacturers, and the corresponding downstream customers are various channel distributors and retailers. Trading companies receive purchase orders from downstream customers by means of product marketing and via exhibitions. They then place orders with their upstream manufacturers and are also responsible for arranging transportation, delivery, distribution, and warehousing services. Most often, upstream manufacturers of hand tools and household products are often smaller operations, they will be able to sell their products quickly with the intermediary services provided by trading firms. As for large downstream retailers, the benefit of placing orders with trading companies with sufficient economies of scale would mean a more streamlined ordering process, where the trading firm can provide Total Solution service that includes more than order fulfillment, but also includes packaging, logistics, warehousing, and potentially financing services. In addition, trading companies also possess the ability to cooperate with their upstream and downstream partners in terms of providing after-sales service and formulating marketing strategies. The relationships of traders with their upstream, midstream and downstream partners are depicted in the following diagram:



In order to provide customers with comprehensive services and identify new sourcing opportunities in local markets, trading companies often open branch offices in both domestic and overseas markets. In addition, trading companies also provide OEM or ODM products for downstream customers and some trading companies have created or acquired own brands to add to their distribution channels along with the existing products they already source for global retail customers.

### (3) Development Trends

With global economies becoming more interdependent, combine with the rise of large scale discount chains, hypermarkets in the retail industry, the trading industry will become increasingly more competitive in the future. Only by seeking to provide value added services and continue to expanding the size of its own operations to strengthen its product and service offerings, will trading companies survive the challenges that lie ahead.

Future trends of the trading industries include the following:

#### 1. Specialization in Products and Customer Services

As competition becomes more intense in the trading business, the role of trading companies must evolve beyond sourcing and re-selling transactions. Trading companies have evolved to become full service suppliers that provide product consultation and after-sales service as well as logistics and distribution functions. Since these services often involve specialized products, trading companies have become more and more focused in specific market segments and build complete product lines to

demonstrate their competency.

## 2 、 New markets and new competitors following accession to WTO and the signing of ECFA

Global trade liberalization remains a key force driving the changes for the competitive landscape for trading companies. Following Taiwan's accession to WTO as a full member, any unfair or discriminatory trade practices that the country is confronted with can be resolved via the organization as the country participates in the formulation of international trade regulations. This enables all parties involved to have effective access to international trade regulations and trends in a more predictable environment so that they can carry out trade and investment activities. After the signing of ECFA, economic activities between Taiwan and mainland China have flourished and cross-strait trade and investment opportunities have become increasingly accessible. As a result, it can be foreseen that elimination of trade barriers presents trading companies with many different challenges and opportunities. These include increased pressure from overseas competitors, threats from expansion of emerging markets and more readily available information about competitors and local markets.

## 3 、 Applications to accommodate e-Commerce

Use of the Internet has already become commonplace among enterprises. As such, online (i.e., electronic) procurement has become the new norm. According to a study conducted by the Aberdeen Group, successfully adopting electronic procurement will enable an enterprise to lower the procurement cost by 70% compared with a more traditional approach. Major manufacturers both in Taiwan and abroad, including industry giants such as IBM and Intel, are aggressively pursuing the implementation of electronic procurement systems and electronic component trading with their upstream and downstream partners.

Following the completion of the Taiwan Product Procurement Portal by the Ministry of Economic Affairs (MOEA), a total of 180,000 importers and exporters began to conduct transactions in the B2B e-Commerce market. The ministry has also made available subsidies from the Trade Promotion Fund to trade associations in the following industries: machinery, automobiles, computers, electronics, electromechanical, and textiles. The purpose of the subsidies is to implement specialized websites (ICP) to propel the trading practices of Taiwan into the Internet era.

While value-added services such as logistics, distribution, and after-sales services cannot be completely replaced by the lower cost procurement offered by online sourcing, trading companies will need to develop its own online strategy in order to prevent being replaced, or circumvented, by global retailers desire to go direct to manufacturers to fulfill lower cost sourcing needs.

## 4 、 Augmenting the Capabilities of Manufacturers

With the liberalization of global trade, distributors and retailers have undergone significant changes in terms of their business structures. They have evolved from small, regional sourcing and point of sales in the past, to larger companies that have gained economies of scale, becoming



multi-national entities spanning the globe.

Under these market conditions, smaller manufacturers can work with larger trading companies to become a partner of trading companies' net work of suppliers. This will enable smaller manufacturers to leverage the service platform established by the trading companies and at the same time minimize the financial pressure from tougher payment terms imposed on them by larger, global retailers. They can take advantage of trading companies with cross-border logistics capabilities acting as their representatives in the areas of product sales, warehousing and distribution.

#### (4) Competition Status

Currently there are no competitors of comparable size. However, there are still many small and medium trading companies in the North American and European markets (which are much smaller than the Company in terms of the size of business operations). As for the form of industrial development, the winner-takes-all scenario remains the trend. Large trading companies such as Test Rite will be able to widen the gap with small and medium trading firms with their reputation and experience in serving international customers for many years and with the various standardization and electronic procedures.

**5.1.3 Research and Development :** This is not applicable, as the Company is engaged in the traditional trading industry and is not involved in technological research and development.

#### **5.1.4 Long-term and Short-term Development**

##### (1). Operational Guidelines

##### 1. Steady Growth of Trade: The Company's Primary Business

A. The Company utilizes the experience and resources accumulated over the years on the integration of trade-related services such as product design, packaging design, logistics and warehousing. We also develop new business areas and new products to provide customers in the retail industry with comprehensive solutions for cross-border procurement. In addition, the Company will also be actively developing brand distribution rights for the domestic and mainland Chinese markets, providing the consumer markets on both sides of the Taiwan Strait with household products, a rapidly growing sector. The Company will continue to expand its partnerships in procurement agency services with existing customers such as Michaels, Autozone, Tractor Supply, and AAFES, and will work to cultivate additional customers as well.

B. With wage levels in China rising steadily, significant growth in consumer spending power is expected. The Company will be actively developing product distribution rights on both sides of the Taiwan Strait and taking advantage of opportunities for high growth in the domestic consumption market. We will also continue to plan for and develop new potential procurement sources and regions in order to improve our production and marketing cost efficiency.

## 2. Maintaining Growth in the Retail Business

A. With consumer confidence in Taiwan rising, the pursuit of a higher quality of life is becoming more widespread. Test Rite retail outlets and HOLA TW are expanding their presence and provide a more complete selection of products. We are also considering the possibility of providing different types of services to be able to enter the community home improvement sector or to formulate business strategies such as store-within-the-store in order to improve our operational efficiency. The operating performance of our mainland Chinese retail operations and HOLA China outlets also continues to improve. In 2010, we were able to expand rapidly with 9 small to medium stores, with revenue growth superior to market performance. Taiwan's consumer market is a relatively more mature market, but it is a market where more and more consumers are looking to make purchases to improve their standard of living. Meanwhile with China's 12th five-year plan aimed at driving demand for domestic consumption, considerable growth opportunities exist in China as well.

## 3. Group Integration

The Group continues with its integration effort. Trading business will look to become distribution agent for global brands in Taiwan and China. At the same time, Tung Lung Metal, have begun manufacturing kitchenette to be sold in the Group's retail stores in Taiwan.

## (2). Important Marketing and Development Strategies

### 1. Product Marketing:

- A. Strengthen marketing and promotional capability; continue to develop well-known customers; take advantage of the Company's existing ISO-9002 certification and specialized product development and packaging superiority; develop new customers and new markets.
- B. By maintaining close-knit cooperation among departments, the Company has earned the trust of customers with flexible delivery schedules and high-quality products. This, in addition to providing marketing strategies, retail outlet design, and warehousing and distribution services, enables us to gain access to major international customers with our outstanding reputation and increase the Company's turnover and profitability.
- C. To accommodate different cultures and situations in various countries, we actively collect market information to develop new products and product mix to expand to domestic and foreign markets with packaging and design in limited quantities.
- D. Enhancing our presence in Taiwan and China by establishing additional stores, we provide a tight service network aimed at domestic and overseas customers, thus enabling us to enter new markets and to collect information on market supply and demand as well as on products.

### 2. Product Development:

- A. Continuing the development of hardware, hand tools and household products, we reinforce the image of Test Rite as a professional tools and household products trading company with products designed toward the goals of being innovative, ergonomically designed,

multi-function/composite, limited-quantity packaging and highly differentiated products in smaller quantities in order to meet the demand of the current markets.

- B. Taking advantage of Test Rite's well-established professional image, the Company explores the possibility of entering relevant product domains in order to expand its product lines and to reap the benefits of synergy when combining new and existing products.
- C. Through investing in other companies, we aggressively expand our domestic downstream hardware hand tools and household products retail channels to achieve vertical integration efficiency as well as to create more formidable entry barriers and increase our market share.
- D. In response to the ongoing development of online commerce, the Company seeks domestic and overseas strategic partners and explores the types of products that are more suited to the Internet commerce in order to participate in this new market.

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

#### (1). Sales (Service) Region

(Unit : NTD thousand)

| Division \ Year | 2009       |        | 2010       |        |
|-----------------|------------|--------|------------|--------|
|                 | Amount     | %      | Amount     | %      |
| America         | 5,136,561  | 49.68  | 5,586,079  | 49.77  |
| Europe          | 2,209,914  | 21.37  | 2,115,228  | 18.85  |
| Other area      | 1,610,890  | 15.58  | 1,538,695  | 13.71  |
| Sub total       | 8,957,365  | 86.63  | 9,240,002  | 82.33  |
| Taiwan          | 1,382,017  | 13.37  | 1,983,386  | 17.67  |
| Total           | 10,339,382 | 100.00 | 11,223,388 | 100.00 |

#### A. Export Markets

In 2010, the economy in North America rebounded ahead of other developed markets and the region represented a target export destination with 60% of the Company's total trading business. Currently the job market and consumer confidence in North America continue to improve in 2011. Although the economy of the European market slowed down slightly in 2010 and exports to Europe fell to 15% of total shipments, we are seeing signs of recovery in 2011. The Asian domestic consumption markets continue to grow amidst brisk economic development. With the trading arm of Test Rite being present in every corner of the world, the Company will be able to take the initiative to provide comprehensive services to customers in the retail sector and benefit from the growing markets.

Currently, hand tools account for approximately 30% of the Company's total export revenue, while electrical appliances and household products represent about 14% and 56%, respectively. The Company will actively engage in development of a more comprehensive series of products and product mix, which will enable us to compete more effectively in the markets and to spread the risk of having only a single product line.

## B. Domestic Market

Test Rite Retail currently operates 23 DIY stores and 18 HOLA TW outlets, and remains a dominant player in the DIY and home furnishing business. With improving real-estate market in Taiwan, the Company's overall domestic business is well positioned to benefit from the recovery of the domestic demand in Taiwan.

### (2) Market Share

#### A. Hand Tools

According to statistics compiled by ITIS, Taiwan's total exports of hand tools in 2008 amounted to NT\$55.7 billion, and the Company's contribution was NT\$2.734 billion— a 4.91% market share in 2008. With the operating income of subsidiary Test Rite Retail steadily growing, the hand tools business is expected to grow as well.

B. Household Products: As there are numerous products in this category, no relevant statistics are currently available.

### (3) Future Supply and Demand and Market Growth

The economy and job markets in North America are seeing sustained level of recovery. European economy is also showing signs of improvement. And Taiwan's domestic demand has remained resilient following the financial crisis. The outlook for demand, for products related DIY and home improvement is expected to increase both at home and abroad, including Emerging Markets as well.

### (4) Competitive Niche

#### A. Steady and continuing growth of the Company's primary business - Trading

We continue to expand our operations with five principal strategies: new products, customer development, product design, brand licensing, and development of regional markets. In addition to principal trading, our agency business have secured contracts with customers including AutoZone, Michaels, Tractor Supply, and AAFES.

#### B. Product innovation contributing to our sales advantages and added value

Competition in the market is becoming more intense. As such, the Company increasingly attaches greater importance on product design and R&D. In addition to collaborating with manufacturers to produce product packaging and exteriors that meet our customers' requirements, we have also solicited the help from a dedicated industrial design team to create unique products for the company's product portfolio.

#### C. Transforming trading experience and branching out into retail outlet operations, benefiting from rising domestic demand and economic growth

The Company's trading operations provided valuable insight to how the retail industry is evolving globally. We then leveraged this experience to enter the retail business and have built a leading DIY and home furnishing retail chains in Taiwan and China. We expect to continue to further integrate our trading and retail business going forward.

(5) Favorable and unfavorable factors for the Group's outlook and response measures

Favorable Factors:

- A. The Company has a sound financial structure, access to working capital and a comprehensive global procurement and sales network. This enables us to readily take advantage of market information and customer trends and gain access to products with a sufficient and stable supply as well as quality that is controlled under stringent conditions. We also have strong marketing and procurement teams which are essential in giving us a competitive edge in international markets and for the expansion of triangular trade.
- B. Focusing on product, our procurement network extends its reach to geographically diverse suppliers throughout the world. With a solid foundation of business operation, we are able to provide comprehensive services to our customers, which are among the world's leading retail enterprises. Our customers' growth will drive the growth of the Company.
- C. An increasing number of retailers are engaging procurement agents to conduct procurement on their behalf. The Company is also actively pursuing the expansion of our agency operations to tap into a major growth driver of revenue.
- D. Our DIY business is growing at a steady pace. HOLA's furniture and decoration business is currently in the expansion phase and the business unit is entering the home improvement services market in Taiwan. It is expected that there will be considerable growth potential in the domestic market.
- E. We continue to explore the possibility of expanding into emerging markets with great potential, such as Southeast Asian and Central and South American countries.

Unfavorable Factors:

- A. As demand from emerging economies rises, prices of raw materials is expected to soar
- B. Depreciation of U.S. dollar relative to Asian currencies
- C. Rising labor cost in China
- D. Pressure on the Company's gross profit margin as difficult to pass on higher ASPs

The Company's response strategies are as follows:

- A. Continuing to expand our agency business to provide retail customers and suppliers with more cost-effective communication channels, as well as reducing the Company's own working capital requirements
- B. Cooperating with suppliers in the supply chain to improve design and product development capabilities, enhancing purchasing and bargaining power and raising the added value of products as well as reducing procurement costs.

## 5.2.2 The Production Procedures of Main Products

### A. Major Products and Their Main Uses :

| Major Products                          |   | Main Uses  |
|---|---|--|
| Hand Tools Category                     | General Hand Tools (including axes, saws, wrenches, and pliers)<br>Gardening Tools (shovels and sprinklers)<br>Hardware Components (e.g. screws)  | These are tools for Do It Yourself (DIY) projects, essential for the installation and maintenance of household accessories.<br>Maintenance of gardens and beautifying home environment.<br>Spare parts necessary for general repair and maintenance.   |
| Electrical Appliances                   | Ceiling fans, electric fans<br>Lamps and light fixtures (including wall lamps, table lamps and floor lamps)<br>Other Electrical Accessories (e.g. Hair dryers, electric razors and infrared detectors)  | Ventilation and Interior Decoration.<br>Used for indoor or outdoor lighting and decoration.<br>Small personal or family electrical appliances for daily use.   |
| Other Household Products                | Bathroom and sanitary equipment, automotive repair and maintenance supplies, fireplace accessories, furniture, Christmas gifts, barbecue utensils   | Products essential for the family or recreational products   |
| General merchandise for domestic market | OA Furniture (e.g. desks and office chairs)<br>Recreational Products (mainly bicycles and ice chests)<br>DIY TOOL<br>Automobile accessories and supplies (e.g. automobile mats and windshield wipers)<br>Stationery (e.g. office supplies, file folders and document holders) | Essential furniture for the office.<br>Leisure products that make life more fun.<br>These are tools for Do It Yourself (DIY) projects, essential for the installation and maintenance of household accessories.<br>Accessories and general merchandise for cars.<br>Essential accessories and supplies for the office. |

B. Major Products and Their Production Processes : N/A: The Company is engaged in the traditional trading industry and is not involved in manufacturing.

## 5.2.3 Supply Status of Main Materials

The Company does not manufacture any products, thus no issues exist with regard to supply of raw materials. Upstream suppliers are mainly manufacturers of hardware and hand tools, household products, furniture, office supplies, and IT products. The Company maintains long-term relationships and is on good terms with upstream suppliers. We collaborate with them extensively on product specifications and delivery dates, and the supply of products has not been a problem.

## 5.2.4 Major Suppliers and Clients

### A. Major Suppliers Information for the Last Two Calendar Years

Unit : NT\$thousand

| Company Name | 2009      |         |                      | 2010      |         |                      |
|--------------|-----------|---------|----------------------|-----------|---------|----------------------|
|              | Amount    | Percent | Relation with Issuer | Amount    | Percent | Relation with Issuer |
| A Co.        | 1,155,394 | 11%     | Subsidiary of TR     | 1,928,670 | 17%     | Subsidiary of TR     |
| B Co.        | 941,437   | 9%      | Subsidiary of TR     | 1,490,442 | 13%     | Subsidiary of TR     |

### B. Major Clients (each commanding 10%-plus share of annual order volume) Information for the Last Two Calendar Years

**5.2.5 Production over the Last Two Years :** N/A: The Company is engaged in the traditional trading industry and is not involved in manufacturing.

## 5.2.6 Shipments and Sales over the Last Two Years

Unit : NTD\$ million

| Major Products \ Year | 2009   |        | 2010   |        |
|-----------------------|--------|--------|--------|--------|
|                       | Local  | Export | Local  | Export |
|                       | Amount | Amount | Amount | Amount |
| Tool                  | -      | 1,709  | -      | 1,848  |
| Electronics           | -      | 429    | -      | 498    |
| Household             | -      | 6,774  | -      | 6,823  |
| Sundry                | 1,347  | -      | 1,929  | -      |
| Commission            | -      | 85     | -      | 114    |
| Rental                | 284    | -      | 302    | -      |
| Total                 | 1,631  | 8,997  | 2,231  | 9,283  |

## 5.3 Human Resources

| Year                     |                          | 2009  | 2010   | Until May 10, 2011 |
|--------------------------|--------------------------|-------|--------|--------------------|
| No. of Employees         |                          | 348   | 397    | 410                |
| Average Age              |                          | 41    | 40     | 39                 |
| Average Years of Service |                          | 8.5   | 8.2    | 7.6                |
| Education                | Ph.D.                    | 0%    | 0%     | 0%                 |
|                          | Masters                  | 9.3%  | 12.18% | 12.59%             |
|                          | Bachelor's Degree        | 84.2% | 73.09% | 74.57%             |
|                          | Senior High School       | 5.9%  | 13.31% | 11.61%             |
|                          | Below Senior High School | 0.6%  | 1.42%  | 1.23%              |

## 5.4 Labor Relations

(1) The Company's various employee welfare programs, education, training, retirement system, and their implementation; agreement between management and labor as well as the fulfillment of labor rights.

### 1. Employee Welfare Programs:

To promote the welfare of our employees and to create an environment in which our employees can enjoy working in, the Company established the Employee Welfare Committee on April 6, 1983 to implement various employee welfare activities. The sources of funding for the committee consist of 0.05% of the Company's total monthly revenue and 0.5% of employees' total monthly salary. In addition, the Company's employee welfare programs include healthcare plans, loans and employee stock ownership plans.

### 2. Employee Education and Training Programs

Continuous learning is one of the key factors that affect the survival of an enterprise in the marketplace. Our employee training programs are long-term planned talent cultivation systems which complement the Company's business strategy and development requirements. We have developed a set of human resource development processes designed with an evolving organization in mind. In essence, the Human Resources Division submits an annual education and training plan to be approved at the beginning of each year, and later conducts periodic assessments of the effectiveness of the training programs throughout the year. This assessment is used as the basis for improving future plans.

- A. Education and training for senior management: Education and training for senior management: The training of our senior executives focuses on formulating business strategies which consist of recommendations provided by members of the Board to top management and supplemented by the analyses, investigations, and response strategies conducted by external consultants on actual case studies. This enables our top executives to assume leadership of the Company as well as maintain their strategic thinking and build up their forward-looking business strategy.
- B. Training for officers at all levels: We provide training for the Company's mid-level managers to accommodate their needs for handling daily tasks. We emphasize practical skills for our management and leadership teams such as delegation of work, performance evaluation, exception analysis, and horizontal communication, thus enabling our middle managers to learn how to manage teams and enhance their management capabilities while at work.
- C. Training in professional skills: Due to the nature of the industry in which the Company conducts business and our operating requirements, some duties involving the use of specialized skills, such as foreign exchange operations or quality inspection, require additional professional knowledge and technical background. Apart from the requirements that the education and work experience of the personnel involved in these types of work must be highly relevant, these employees should also attend regular external training courses or seminars to improve their sensitivity to the market and maintain the necessary level of professional expertise.
- D. Training for general employees: Training for employees below the managerial level is divided into pre and in-service training. Each employee will be given separate courses according to his or her job function. The courses emphasize improving work efficiency, taking the initiative to report to supervisors, handling problems,



etc. The training is also concurrently supplemented by permanent staff who provides instruction on routine work and the use of necessary tools so that new employees will be able to quickly adapt to their work duties. It is also expected that the results of the training program will be verified and carried out quickly and effectively.

In addition, the Company also offers employees the opportunities to participate in overseas training and a subsidy program to encourage them to learn foreign languages. These programs exemplify our commitment to and investment in the cultivation of talents.

3. Retirement programs and status of implementation:

The Labor Standards Act is applicable to the Company. However, in order to reward our employees for their dedication and to protect their livelihood, the Company established an Employee Pension Plan in 1982. Prior to 1991, 8% of actual total gross salary matched by the Company was set aside in a dedicated account for the pension plan, and starting in 1992, the percentage was changed to 4%. The Company has a sound retirement program, and according to the actuarial report, the fair value of the assets in our pension plan is NT\$67,265,000 as of year-end 2010. In addition, pursuant to the Labor Pension Act, the Company has adopted the new pension system and has been setting aside 6% of employees' monthly salary as employee pension since July 1, 2005.

4. Labor-management agreement:

The provisions of the Labor Standards Act apply to the Company, and labor-related affairs are carried out in accordance with this Act. An employee suggestion box has been set up to take into consideration the opinions of employees and to address their complaints, as well as to solicit feedback and recommendations from them as the basis for improving the Company's operations going forward. Since the Company has always attached great importance to employee welfare and valued two-way communication with employees, we have had very amicable labor relations since the Company's inception and there have not been any incidents of labor dispute.

5. Fulfillment of labor rights and interests

The Company has established a set of human resources management guidelines and has been reinforcing the rules contained therein to protect the rights and interests of our employees.

(2) As of the current fiscal year up to the date of publication of the annual report, all losses due to labor disputes shall be reported and the estimated amount of losses likely to occur at present and in the future as well as corresponding measures adopted by the Company shall be disclosed. If it is not possible to provide a reasonable estimate, the reasons should be clearly stated:

For the past two years and up to the present, the Company has suffered no losses due to labor disputes. It is difficult to provide a reasonable estimate to current or future losses. However, the Company is committed to strengthening communication with employees and we intend to maintain benefit programs that are satisfactory to them so as to promote more harmonious labor relations and to reduce the likelihood of any labor disputes in the future.

## 5.5 Important Contracts

As of Dec. 31, 2010

| Agreement              | Counterparty                             | Period   | Major Contents   | Restrictions  |
|------------------------|--|--|--|---|
| AR Factoring Agreement | Fubon Commercial Bank Los Angeles Branch | June, 2010   | The subsidiaries of Test-Rite Int'l (U.S.) Co., Ltd. which are TR Products 、Landia and Homezone concluded an accounts receivable factoring agreement with Fubon Commercial Bank Los Angeles Branch | The subsidiaries of Test-Rite Int'l (U.S.) Co., Ltd. have entered into a factoring agreement with a commercial factor. Under the terms of the agreement, credit risk is transferred to the factor on accounts sold and assigned to the factor. However, the factor may charge back Test-Rite Int'l (U.S.) Co., Ltd. for any accounts not paid in full when due for any reason other than credit risk. |
| AR Factoring Agreement | Taishin International Bank               | June 18,2010 to May 31,2011  | The agreement declared that the bank has no right of further recourse against Test-Rite.   | According to the agreement, the bank should pay 90% of the proceeds to Test-Rite at the time of sale. Test-Rite only has to be responsible for loss that resulted from business disputes.   |
| Lease Agreement        | CPI Asia T-Mart Limited                  | December 26, 2007 to December 25,2017                                  | the sale and leaseback TR building   | The yearly rent for the building is NTD quarter of a billion. During leasing year, the yearly rental has to be increased by 3% of previous year agreement   |
| Long-term debt         | Shanghai Commercial & Savings Bank       | November 22, 2010 to November 22, 2014                                 | Unsecured loan   | N.A.  |
| Long-term debt         | Taishin International Bank               | July 20, 2010 to July 20, 2012.  | Unsecured loan   | Total Liabilities Ratio not more than 2 to 1.<br>Current Ratio not more than 1 to 1.  |
| Long-term debt         | Ta Chong Bank                            | May 16, 2008 to November 30, 2012.                                     | Unsecured loan   | Total Liabilities Ratio not more than 2 to 1.<br>Current Ratio not more than 1 to 1.<br>EBITDA Ratio greater than 2.5 to 1.<br>Minimum Tangible Net Worth not less than \$5,200,000 thousand.   |
| Long-term debt         | Bank SinoPac Co., Ltd.                   | March 31, 2010 to March 31, 2013.                                      | Unsecured loan   | Total Liabilities Ratio not more than 2 to 1.<br>Current Ratio not more than 1 to 1.<br>EBITDA Ratio greater than 2.5 to 1.<br>Minimum Tangible Net Worth not less than \$5,200,000 thousand.   |
| Long-term debt         | Land Loan                                | December 22, 2010 to July 25, 2012, and June 3, 2009 to July 25, 2012. | Unsecured loan   | Total Liabilities Ratio not more than 2 to 1.<br>Current Ratio not more than 1 to 1.<br>EBITDA Ratio greater than 2.5 to 1.<br>Minimum Tangible Net Worth not less than \$5,200,000 thousand.   |
| Long-term debt         | Jihsun Bank                              | September 21, 2010 to July 1, 2013.                                    | Unsecured loan   | Total Liabilities Ratio not more than 2 to 1.<br>Current Ratio not more than 1 to 1.  |
| Long-term              | Taiwan Business                          | November 22, 2010  | Unsecured loan   | N.A.  |

| Agreement      | Counterparty                          | Period                                | Major Contents | Restrictions  |
|----------------|---------------------------------------|---------------------------------------|----------------|---|
| debt           | Bank                                  | to November 22, 2015.                 |                |   |
| Long-term debt | Taiwan Business Bank's Syndicate Loan | October 26, 2009 to October 26, 2014. | Unsecured loan | Total Liabilities Ratio not more than 2 to 1.<br>Current Ratio not more than 1 to 1.<br>EBITDA Ratio greater than 3 to 1. |
| Long-term debt | First Sino Bank                       | June 24, 2008 to June 23, 2013.       | Pledged loan   | N.A.  |

## VI. Financial Information

### 6.1 Five-Year Financial Summary

#### 6.1.1 Condensed Balance Sheet

Unit : NTD\$ thousand

| Item   | Year      | Five-Year Financial Summary |            |            |            |            | As of March 31, 2011 |
|--|-----------|-----------------------------|------------|------------|------------|------------|----------------------|
|  |           | 2006                        | 2007       | 2008       | 2009       | 2010       |                      |
| Current assets                                   |           | 3,794,950                   | 6,820,082  | 4,837,116  | 3,624,004  | 3,585,822  | 4,504,130            |
| Funds & Long-term investments                    |           | 5,960,299                   | 6,370,826  | 8,533,082  | 8,923,554  | 9,640,944  | 9,860,493            |
| Fixed assets                                     |           | 1,573,295                   | 582,779    | 594,648    | 623,274    | 609,447    | 608,191              |
| Intangible assets                                |           | 11,266                      | 12,863     | 12,168     | 48,609     | 63,453     | 54,838               |
| Other assets                                     |           | 658,495                     | 1,543,135  | 732,288    | 773,712    | 682,149    | 673,636              |
| Total assets                                     |           | 11,998,305                  | 15,329,685 | 14,709,302 | 13,993,153 | 14,581,815 | 15,701,288           |
| Current liabilities                              | 2,825,961 | 3,606,364                   | 2,385,572  | 1,760,559  | 1,574,074  | 2,107,400  | 2,107,400            |
|  | 3,173,058 | 4,043,714                   | 2,539,141  | 1,886,384  | -          | -          | -                    |
| Long-term liabilities                            |           | 2,686,400                   | 2,800,000  | 4,500,000  | 3,966,667  | 4,819,980  | 4,653,228            |
| Other liabilities                                |           | 645,661                     | 2,812,632  | 2,478,213  | 2,230,744  | 1,847,846  | 1,800,230            |
| Total liabilities                                | 6,158,022 | 9,218,996                   | 9,363,785  | 7,957,970  | 8,241,900  | 8,560,858  | 8,560,858            |
|  | 6,505,119 | 9,656,346                   | 9,517,354  | 8,083,795  | -          | -          | -                    |
| Capital stock                                    | 4,488,130 | 4,652,434                   | 4,736,660  | 5,312,228  | 5,164,228  | 5,164,228  | 5,164,228            |
|  | 4,603,538 | 4,736,660                   | 4,812,228  | 5,312,228  | -          | -          | -                    |
| Capital surplus                                  |           | 600,647                     | 551,096    | 520,130    | 721,731    | 701,623    | 794,812              |
| Retained earnings                                | 1,094,093 | 1,198,051                   | 910,300    | 833,878    | 1,082,099  | 1,339,828  | 1,339,828            |
|  | 631,588   | 676,475                     | 675,440    | 708,053    | -          | -          | -                    |
| Unrealized gain or loss on financial instruments |           | (782)                       | (13,107)   | (9,385)    | (267)      | (4,134)    | (5,510)              |
| Cumulative translation adjustments               |           | 22,338                      | 76,895     | 121,037    | 120,332    | 84,896     | 90,257               |
| Net loss unrecognized as pension cost            |           | 16                          | (16,964)   | (35,928)   | (55,422)   | (72,380)   | (72,380)             |
| Treasury stock                                   |           | (364,159)                   | (337,716)  | (897,297)  | (897,297)  | (616,417)  | (170,805)            |
| Total shareholders' equity                       | 5,840,283 | 6,110,689                   | 5,345,517  | 6,035,183  | 6,339,915  | 7,140,430  | 7,140,430            |
|  | 5,493,186 | 5,673,339                   | 5,191,948  | 5,909,358  | -          | -          | -                    |

Note : 2006-2010 financial data have been duly audited by independent auditors. 1Q/2011 financial data have been reviewed by independent auditors.

## 6.1.2 Condensed Statement of Income

Unit : NTD\$ thousand

| Item \ Year   | Five-Year Financial Summary |            |            |            |            | As of March 31, 2011 |
|---|-----------------------------|------------|------------|------------|------------|----------------------|
|   | 2006                        | 2007       | 2008       | 2009       | 2010       |                      |
| Operating revenue   | 16,691,890                  | 15,153,404 | 13,517,390 | 10,627,889 | 11,513,995 | 3,443,565            |
| Gross profit  | 2,622,484                   | 2,459,712  | 2,220,850  | 1,961,003  | 2,233,536  | 640,715              |
| Income from operations                                    | 676,130                     | 417,161    | 340,745    | 166,638    | 222,257    | 45,136               |
| Non-operating income                                      | 295,652                     | 683,003    | 376,692    | 283,473    | 534,982    | 359,054              |
| Non-operating expenses                                    | 528,608                     | 515,217    | 411,824    | 284,340    | 140,521    | 134,861              |
| Income from operations of continued segments - before tax | 443,174                     | 584,947    | 305,613    | 165,711    | 616,718    | 269,329              |
| Income from operations of continued segments - after tax  | 440,174                     | 576,847    | 285,113    | 136,771    | 486,818    | 257,729              |
| Income from discontinued operations                       | -                           | -          | -          | -          | -          | -                    |
| Extraordinary gain or loss                                | -                           | -          | -          | -          | -          | -                    |
| Cumulative effect of accounting principle changes         | -14,873                     | -          | -          | -          | -          | -                    |
| Net income  | 425,301                     | 576,847    | 285,113    | 136,771    | 486,818    | 257,729              |
| Earnings per share  | 0.96                        | 1.28       | 0.64       | 0.31       | 1.01       | 0.51                 |

Note 1 : 2006-2010 financial data have been duly audited by independent auditors. 1Q/2011 financial data have been reviewed by independent auditors.

## 6.1.3 Auditors' Opinions from 2005 to 2009

| Year | CPA's Name                   | CPA's Opinion                |
|------|------------------------------|------------------------------|
| 2006 | LIN, PETER, LU, CHI-CHANT    | modified Unqualified opinion |
| 2007 | CHIU, MING YU, LU, CHI-CHANT | Unqualified opinion          |
| 2008 | YU, HONG-BIN, LU, CHI-CHANT  | modified Unqualified opinion |
| 2009 | YU, HONG-BIN, LU, CHI-CHANT  | Unqualified opinion          |
| 2010 | YU, HONG-BIN, LU, CHI-CHANT  | Unqualified opinion          |

## 6.2 Five-Year Financial Analysis

| Year                    |  | Financial analysis in the past five years |          |          |          |          | As of          |
|-------------------------|--|---|----------|----------|----------|----------|----------------|
| Item                    |  | 2006                                      | 2007     | 2008     | 2009     | 2010     | March 31, 2011 |
|                         |  |   |          |          |          |          |                |
| Financial structure (%) | Ratio of liabilities to assets             | 51.32                                     | 60.14    | 63.66    | 56.87    | 56.52    | 54.52          |
|                         | Ratio of long-term capital to fixed assets | 541.96                                    | 1,529.00 | 1,655.69 | 1,604.73 | 1,831.15 | 1,939.14       |
| Solvency (%)            | Current ratio                              | 134.29                                    | 189.11   | 202.77   | 205.84   | 227.81   | 213.73         |
|                         | Quick ratio                                | 122.26                                    | 181.33   | 194.22   | 194.97   | 210.93   | 199.65         |
|                         | Times interest earned ratio                | 2.74                                      | 3.13     | 2.33     | 2.8      | 9.27     | 14.82          |
| AR/AP (turnover)        | Accounts receivable turnover (turns)       | 6.35                                      | 5.58     | 4.53     | 3.76     | 4.57     | -              |
|                         | Average collection period                  | 57  | 65       | 81       | 97       | 80       | -              |
|                         | Inventory turnover (turns)                 | 156.63                                    | 131.12   | 128.86   | 121.66   | 134.38   | -              |
|                         | Accounts payable turnover (turns)          | 14.8                                      | 11.88    | 11.75    | 9.64     | 11.54    | -              |
|                         | Average days in sales                      | 2   | 3        | 3        | 3        | 3        | -              |
|                         | Fixed assets turnover (turns)              | 10.35                                     | 14.06    | 22.96    | 17.45    | 18.68    | -              |
|                         | Total assets turnover (turns)              | 1.52                                      | 1.11     | 0.9      | 0.74     | 0.81     | -              |
| Profitability           | Return on total assets (%)                 | 5.73                                      | 5.73     | 3.04     | 1.44     | 3.84     | -              |
|                         | Return on stockholders' equity (%)         | 7.72                                      | 9.65     | 4.98     | 2.4      | 7.87     | -              |
|                         | Ratio to issued capital (%)                | 15.06                                     | 8.97     | 7.1      | 3.14     | 4.30     | -              |
|                         | Operating income                           | 9.87                                      | 12.57    | 6.45     | 3.12     | 11.94    | -              |
|                         | Pre-tax income                             | 2.64                                      | 3.81     | 2.11     | 1.29     | 4.23     | 7.48           |
|                         | Profit ratio (%)                           | 1.02                                      | 1.32     | 0.65     | 0.31     | 1.01     | 0.51           |
| Cash flow               | Earnings per share (\$)                    | 47.01                                     | 8.25     | 13.97    | 31.88    | 19.83    | -              |
|                         | Cash flow ratio (%)                        | 40.9                                      | 32.66    | 26.02    | 23.36    | 21.16    | -              |
|                         | Cash flow adequacy ratio (%)               | 8.61                                      | (0.35)   | (0.75)   | 3.31     | 1.41     | -              |
| Leverage                | Cash reinvestment ratio (%)                | 2.02                                      | 2.96     | 3.52     | 6.75     | 5.26     | 7.02           |
|                         | Operating leverage                         | 1.6                                       | 2.91     | 3.14     | 2.24     | 1.51     | 1.76           |
|                         | Financial leverage                         |   |          |          |          |          |                |

Explanation for items in 2010 with major changes > 20% from the previous year :

1. The increase in the ratio of interest protection multiples over the previous period was due to the substantial reduction in interest expense for the current period.
2. The increase in receivables turnover rate over the previous period was due to an increase in net sales by NT\$886,106,000 and the decrease of average receivables over the two periods by NT\$308,342,000.
3. The increase in return on assets over the previous period was due to an increase of after-tax profit for the current period by NT\$350,047,000.
4. The increase in return on equity over the previous period was due to an increase of after-tax profit for the current period by NT\$350,047,000.
5. The increase in the operating profit to total paid-in capital ratio over the previous period was due to the increase of operating profit for the current period by NT\$55,619,000 and a decrease in paid-in capital by NT\$148,000,000.
6. The increase in EBITDA to total paid-in capital ratio over the previous period was due to the increase of EBITDA for the current period by NT\$450,947,000 and a decrease in paid-in capital by NT\$148,000,000.
7. The increase in net income ratio/earnings per share over the previous period was due to an increase of after-tax profit for the current period by NT\$350,047,000.
8. The decrease in cash flow ratio over the previous period was due to decrease in net cash inflow from operating activities by NT\$248,986,000 over the previous period.
9. The decrease in cash reinvestment ratio over the previous period was due to the decrease in net cash inflow from operating activities by NT\$248,986,000 over the previous period.
10. The decrease in operating leverage ratio over the previous period was due to the increase in operating profit by NT\$55,619,000 over the previous period.
11. The decrease in financial leverage ratio over the previous period was due to the decrease in interest expense by NT\$17,653,000 over the previous period.

Note 1 : 2006-2010 financial data have been duly audited by independent auditors.

Note 2 : 1Q/2011 financial data have been reviewed by independent auditors.

Note 3 : Formulas for the above table:

1. Financial structure

(1) Debt to asset ratio = Total liabilities / Total assets

(2) Long-term capital to fixed asset ratio = (Shareholders' equity + Long-term liabilities) / Net fixed assets

2. Solvency

(1) Current ratio = Current assets / Current liabilities

(2) Quick ratio = (Current assets - Inventory - Prepaid expenses) / Current liabilities

(3) Interest cover = Income before interest and tax / Interest expense

3. A/R, A/P and other turnover ratios

(1) Accounts receivable turnover = Net revenue / Average accounts receivable

(2) Average collection days = 365 / AR turnover ratio

(3) Inventory turnover = COGS / Average inventory

(4) Accounts payable turnover = COGS / Average accounts payable

(5) Average days sales = 365 / Inventory turnover ratio

(6) Fixed asset turnover = Net revenue / Net fixed assets

(7) Total asset turnover = Net revenue / Total assets

4. Profitability

(1) Return on assets = [Net income + Interest expense \* (1 - Tax rate)] / Average assets

(2) Return on equity = Net income / Average equity

(3) Net income margin = Net income / Net sales

(4) EPS = (Net income - Preferred stock dividend) / Weighted average outstanding shares

5. Cash flow

(1) Cash flow ratio = Cash flow from operating activities / Current liabilities

(2) Cash flow adequacy ratio = Net cash flow from operating activities for the past 5 years / (Capital expenditures + Increases in inventory + Cash dividend) for the past 5 years

(3) Cash reinvestment rate = (Cash flow from operating activities - Cash dividends) / (Gross fixed assets + Long-term investments + Other assets + Working capital) (Note: Use 0 if working capital value is negative)

6. Leverage

(1) Operating leverage = (Net revenue - Variable operating costs and expenses) / Operating income

(2) Financial leverage = Operating income / (Operating income - Interest expense)

### **6.3 Supervisors' Report in the Most Recent Year**

#### **To: The General Meeting of Shareholders as of year 2010**

The undersigned has duly audited the Operating Report, Financial Statements and Schedule of Earnings Distribution prepared by the Board of Directors for the year of 2010, and found the same to be true and correct. Therefore, the Supervisors' Report is hereby issued in accordance with Article 219 of Company Law.

Test Rite International Co., Ltd.

Supervisors: Tsai-Chi Co., Ltd.

Representative: Mr. Lai, Yung-Chi

Representative: Mr. Liao, Hsueh-Hsing

April 28, 2011



## **6.4 Consolidated Financial Statements for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Report**

### **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated balance sheets of Test-Rite International Co., Ltd. and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended (all expressed in thousands of New Taiwan dollars). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

April 12, 2011

#### Notice to Readers

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

*For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

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

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

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

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

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

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

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009

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

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

(Continued)

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

## CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

|  | 2010                    |                        | 2009                    |                        |
|--|-------------------------|------------------------|-------------------------|------------------------|
|  | Amount                  | %                      | Amount                  | %                      |
| ATTRIBUTED TO  |                         |                        |                         |                        |
| Parent company's stockholders  | \$ 486,818              | 2                      | \$ 136,771              | 1                      |
| Minority interest  | <u>133,348</u>          | <u>-</u>               | <u>96,632</u>           | <u>-</u>               |
|  | <u>\$ 620,166</u>       | <u>2</u>               | <u>\$ 233,403</u>       | <u>1</u>               |
|  | 2010                    |                        | 2009                    |                        |
|  | Before<br>Income<br>Tax | After<br>Income<br>Tax | Before<br>Income<br>Tax | After<br>Income<br>Tax |
| BASIC EARNINGS PER SHARE (Notes 2 and 24)                              |                         |                        |                         |                        |
| Basic earnings per share including minority interest                   | <u>\$ 1.80</u>          | <u>\$ 1.28</u>         | <u>\$ 0.87</u>          | <u>\$ 0.52</u>         |
| Basic earnings per share attributed to parent company's stockholders   |                         | <u>\$ 1.01</u>         |                         | <u>\$ 0.31</u>         |
| DILUTED EARNINGS PER SHARE (Notes 2 and 24)                            |                         |                        |                         |                        |
| Diluted earnings per share including minority interest                 | <u>\$ 1.80</u>          | <u>\$ 1.27</u>         | <u>\$ 0.86</u>          | <u>\$ 0.52</u>         |
| Diluted earnings per share attributed to parent company's stockholders |                         | <u>\$ 1.00</u>         |                         | <u>\$ 0.31</u>         |

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

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

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

|  | Other Adjustments of Stockholders' Equity |  |                   |                   |  |  |   |                     |                   |                     |
|--|---|--|-------------------|-------------------|--|--|---|---------------------|-------------------|---------------------|
|  | Capital Stock<br>Common Stock             | Capital Surplus<br>Additional Paid-in<br>Capital | Retained Earnings |                   | Cumulative<br>Translation<br>Adjustments | Net Loss Not<br>Recognized as<br>Pension Costs | Unrealized Holding<br>Loss on<br>Available-for-sale<br>Financial Assets | Treasury Stock      | Minority Interest | Total               |
| BALANCE, JANUARY 1, 2009   | \$ 4,736,660                              | \$ 520,130                                       | \$ 669,551        | \$ 240,749        | \$ 121,037                               | \$ (35,928)                                    | \$ (9,385)  | \$ (897,297)        | \$ 565,971        | \$ 5,911,488        |
| Appropriation and distribution of 2008 net income (Note 24)                  |   |  |                   |                   |  |  |   |                     |                   |                     |
| Legal reserve  | -   | -  | 23,382            | (23,382)          | -  | -  | -   | -                   | -                 | -                   |
| Stock dividends  | 63,958                                    | -  | -                 | (63,958)          | -  | -  | -   | -                   | -                 | -                   |
| Cash dividends   | -   | -  | -                 | (149,235)         | -  | -  | -   | -                   | -                 | (149,235)           |
| Transfer of bonuses to employees to capital stock (Note 24)                  | 11,610                                    | 5,724  | -                 | -                 | -  | -  | -   | -                   | -                 | 17,334              |
| Issuance of common stock for cash (Note 24)                                  | 500,000                                   | 185,000  | -                 | -                 | -  | -  | -   | -                   | -                 | 685,000             |
| Issuance of common stock reserved for stock option to employees<br>(Note 24) | -   | 10,877   | -                 | -                 | -  | -  | -   | -                   | -                 | 10,877              |
| Cumulative translation adjustments on long-term equity<br>investments        | -   | -  | -                 | -                 | (705)                                    | -  | -   | -                   | (1,114)           | (1,819)             |
| Net loss not recognized as pension costs                                     | -   | -  | -                 | -                 | -  | (19,494)                                       | -   | -                   | (718)             | (20,212)            |
| Unrealized valuation gain of available-for-sale financial assets             | -   | -  | -                 | -                 | -  | -  | 9,118   | -                   | 1,740             | 10,858              |
| Minority interest  | -   | -  | -                 | -                 | -  | -  | -   | -                   | (250,766)         | (250,766)           |
| Total consolidated income for 2009   | <u>-</u>                                  | <u>-</u>   | <u>-</u>          | <u>136,771</u>    | <u>-</u>                                 | <u>-</u>                                       | <u>-</u>  | <u>-</u>            | <u>96,632</u>     | <u>233,403</u>      |
| BALANCE, DECEMBER 31, 2009   | 5,312,228                                 | 721,731  | 692,933           | 140,945           | 120,332                                  | (55,422)                                       | (267)   | (897,297)           | 411,745           | 6,446,928           |
| Appropriation and distribution of 2009 net income (Note 24)                  |   |  |                   |                   |  |  |   |                     |                   |                     |
| Legal reserve  | -   | -  | 13,677            | (13,677)          | -  | -  | -   | -                   | -                 | -                   |
| Cash dividends   | -   | -  | -                 | (125,825)         | -  | -  | -   | -                   | -                 | (125,825)           |
| Retirement of treasury stock (Note 24)                                       | (148,000)                                 | (20,108)   | -                 | (112,772)         | -  | -  | -   | 280,880             | -                 | -                   |
| Cumulative translation adjustments on long-term equity<br>investments        | -   | -  | -                 | -                 | (35,436)                                 | -  | -   | -                   | 32,828            | (2,608)             |
| Net loss not recognized as pension cost                                      | -   | -  | -                 | -                 | -  | (16,958)                                       | -   | -                   | (5,697)           | (22,655)            |
| Unrealized valuation loss of available-for-sale financial assets             | -   | -  | -                 | -                 | -  | -  | (3,867)   | -                   | (1,982)           | (5,849)             |
| Minority interest  | -   | -  | -                 | -                 | -  | -  | -   | -                   | (176,644)         | (176,644)           |
| Total consolidated income for 2010   | <u>-</u>                                  | <u>-</u>   | <u>-</u>          | <u>486,818</u>    | <u>-</u>                                 | <u>-</u>                                       | <u>-</u>  | <u>-</u>            | <u>133,348</u>    | <u>620,166</u>      |
| BALANCE, DECEMBER 31, 2010   | <u>\$ 5,164,228</u>                       | <u>\$ 701,623</u>                                | <u>\$ 706,610</u> | <u>\$ 375,489</u> | <u>\$ 84,896</u>                         | <u>\$ (72,380)</u>                             | <u>\$ (4,134)</u>   | <u>\$ (616,417)</u> | <u>\$ 393,598</u> | <u>\$ 6,733,513</u> |

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

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars)

|  | 2010       | 2009       |
|--|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |            |            |
| Total consolidated net income  | \$ 620,166 | \$ 233,403 |
| Adjustments to reconcile net income to net cash provided by operating activities |            |            |
| Amortization for deferred charges on long-term debt                              | 300        | 450        |
| Depreciation and amortization  | 891,238    | 856,344    |
| Amortization of liability component of preferred stocks, noncurrent              | 8,365      | 10,456     |
| Gain on valuation of financial assets  | (152,252)  | (23,114)   |
| Loss (gain) on valuation of financial liabilities                                | 14,836     | (45,347)   |
| Investment (gain) loss recognized under equity method                            | (301)      | 3,077      |
| Net (gain) loss on disposal of available-for-sale financial assets, noncurrent   | (264)      | 4,751      |
| Impairment loss  | 2,683      | 1,880      |
| Net loss on disposal of property, plant and equipment                            | 5,127      | 4,111      |
| Loss on abandoned property, plant and equipment                                  | 62,894     | 11         |
| Amortization for the unrealized gain on sale-leaseback                           | (234,788)  | (234,788)  |
| Compensation cost on issuance of common stock for cash                           | -          | 10,877     |
| Net changes in operating assets and liabilities                                  |            |            |
| Financial assets at fair value through profit or loss, current                   | 281,860    | (377,876)  |
| Available-for-sale financial assets, current                                     | 3,014      | -          |
| Notes receivable   | 4,876      | (27,088)   |
| Accounts receivable  | (569,998)  | 966,595    |
| Other receivables  | 28,424     | 805,398    |
| Other financial assets, current  | 8,309      | 78,642     |
| Inventories  | (650,567)  | (195,966)  |
| Prepayments  | (91,745)   | 2,845      |
| Deferred income tax assets, current  | 17,032     | (713)      |
| Other current assets   | (752)      | 42,468     |
| Deferred income tax assets, noncurrent   | 23,150     | (51,176)   |
| Other assets   | 123,379    | 57,412     |
| Financial liabilities at fair value through profit or loss, current              | (21,280)   | (13,647)   |
| Notes payable  | 7,906      | (66,089)   |
| Accounts payable   | 317,934    | 300,904    |
| Income tax payable   | (17,541)   | (23,267)   |
| Other payables   | 371,881    | (62,498)   |
| Advance receipt  | (182,854)  | 15,567     |
| Other current liabilities  | 4,594      | (13,056)   |
| Financial liabilities at fair value through profit or loss, noncurrent           | (11,130)   | (7,315)    |
| Deferred income tax liabilities, noncurrent                                      | 180        | -          |
| Other liabilities  | 47,568     | (23,108)   |
| Net cash provided by operating activities  | 912,244    | 2,230,143  |

(Continued)

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars)

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

(Continued)

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars)

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

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

(Concluded)



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(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 2010 and 2009 |
|---|--|---|-----------------------|------------|--|
|   |  |   | 2010.12.31            | 2009.12.31 |  |
| Fortune Miles Co., Ltd.                 | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     | Established in July 2010   |
| Test-Rite Fortune Co., Ltd.             | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     |  |
| Test-Rite Star Co., Ltd.                | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     |  |
| Test-Rite Investment (B.V.I.) Co., Ltd. | Directly held 100.00%                          | Investment in various industries                                  | 100.00                | 100.00     |  |
| Test-Rite Retailing Co., Ltd.           | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     |  |
| B&S Link Co., Ltd. (Cayman)             | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     |  |
| Test-Rite Trading Co., Ltd.             | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     |  |
| TRS Investment Co., Ltd.                | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     |  |
| Test-Rite Pte. Ltd.                     | Directly held 100.00%                          | Importation and exportation                                       | 100.00                | 100.00     |  |
| Test-Rite Product (Hong Kong) Ltd.      | Directly held 100.00%                          | Importation and exportation                                       | 100.00                | 100.00     |  |
| Test-Rite Int'l (Australia) Pty Ltd.    | Directly held 100.00%                          | Importation and exportation                                       | 100.00                | 100.00     |  |
| Test-Rite Vietnam Co., Ltd.             | Directly held 100.00%                          | Importation and exportation                                       | 100.00                | 100.00     |  |
| Test-Rite Canada Co., Ltd.              | Directly held 100.00%                          | Importation and exportation                                       | 100.00                | 100.00     |  |
| Test-Rite (UK) Co., Ltd.                | Directly held 100.00%                          | Importation and exportation                                       | 100.00                | -          |  |
| Test-Rite Development Co., Ltd.         | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     |  |
| Test-Rite Int'l (U.S.) Co., Ltd.        | Directly held 49.00% and controllable investee | Importation and exportation                                       | 49.00                 | 49.00      |  |
| Test-Rite Int'l (Thailand) Ltd.         | Directly held 48.99% and controllable investee | Importation and exportation                                       | 48.99                 | 48.99      |  |
| Lih Chiou Co., Ltd.                     | Directly held 100.00%                          | Investment holding company  | 100.00                | 100.00     |  |
| Lih Teh International Co., Ltd.         | Directly held 100.00%                          | Logistics services  | 100.00                | 100.00     |  |
| B&S Link Co., Ltd.                      | Directly held 100.00%                          | Providing information software and electronic information         | 100.00                | 100.00     |  |
| Fusion International Distribution, Inc. | Directly held 100.00%                          | Importation and exportation                                       | 100.00                | 100.00     |  |
| Chung Cin Enterprise Co., Ltd.          | Directly held 100.00%                          | Authorized builder to build dwelling, rental and sale of building | 100.00                | 100.00     |  |
| Test-Rite Retail Co., Ltd.              | Directly and indirectly held 100.00%           | Sale of house decoration hardware and construction materials      | 100.00                | 100.00     |  |

(Continued)



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

### **Principle of Consolidation**

The accompanying consolidated financial statements include the accounts of Test-Rite and its subsidiaries (see Note 1). All significant intercompany balances and transactions have been eliminated upon consolidation. For the information of subsidiaries and reasons for not including in consolidated financial statements in 2010 and 2009, please see Note 1.

- a. The information of subsidiaries not included in the consolidated financial statements for 2010 and 2009: All subsidiaries were included.
- b. The difference of the fiscal period between parent company and subsidiaries: None.
- c. Special risks of business operation for subsidiaries overseas: None.

### **Current/Noncurrent Assets and Liabilities**

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

### **Cash and Cash Equivalents**

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

### **Financial Instruments at Fair Value through Profit or Loss, Current**

Financial instruments at fair value through profit or loss include financial assets and financial liabilities held for trading purpose or upon initial recognition designated by the entity as at fair value through profit or loss. Upon initial recognition, they are recognized at the fair values plus transaction costs. After initial recognition, they are measured at fair values and the changes in the fair values are recognized as the profits or losses.

Derivatives that are not subject to measurement under hedge accounting are classified as financial assets or financial liabilities at fair value through profit or loss. The positive fair values of derivatives are recognized as financial assets; negative fair values are recognized as financial liabilities.

Marketable securities are stated at the closing price at the balance sheet date. The fair value of open-end mutual fund, oversea mutual fund, and REITs are the published fair value per unit at the balance sheet date. The fair value of bonds is determined by prices quoted by the Taiwan GreTai Securities Market.

### **Allowance for Doubtful Accounts**

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

## **Factoring Accounts Receivable**

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

## **Inventories**

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

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

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

## **Long-term Equity Investments at Equity Method**

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

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

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

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

## **Investment in Real Estate**

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

## **Available-for-sale Financial Assets**

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

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

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

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

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

## **Financial Assets Carried at Cost**

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

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

## **Bond Investments without Active Market**

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

## **Property, Plant and Equipment**

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

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

Depreciation is provided using the straight-line method over the estimated service lives of the assets. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives.

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

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

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

## **Impairment of Assets**

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

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

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

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

the purpose of impairment testing.

### **Intangible Assets**

Computer software is amortized on the straight-line method over a 3 to 5 period. Patents are amortized on the straight-line method over a five-year period.

### **Deferred Charges**

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

### **Allowance for Indemnity Losses on Export**

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

### **Convertible Preferred Stocks**

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

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

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

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

### **Retirement Plan**

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

shall be charged to the net loss not yet recognized as net pension cost account.

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

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

### **Shared-based Payment - Employee Remuneration**

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

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

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

### **Foreign Currency Transactions**

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

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

### **Cumulative Translation Adjustments**

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



stockholders' equity, and upon sale or liquidation of the foreign business, these adjustments are charged to income.

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

### **Treasury Stock**

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

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

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

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

### **Income Tax**

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

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

### **Earnings Per Share**

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

### **Sales, Sales Returns and Allowances**

Sales are recognized when title of the products and the risks of ownership are transferred to customers,

primarily upon shipment. Sales returns and allowances are subtracted from sales as incurred and the related costs of goods sold are eliminated.

### **Non-derivative Financial Instruments**

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

## **3. ACCOUNTING CHANGE**

### **Accounting for Inventories**

On January 1, 2009, the Company adopted the newly revised SFAS No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; and (2) write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption did not have any effect on the Company's net income for the year ended December 31, 2009.

## **4. CASH AND CASH EQUIVALENTS**

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

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

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

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

According to the terms and conditions of issuing series B convertible preferred stocks, Tong Lung shall set up a restricted time certificates of deposit account with cash which shall be, but not yet, transferred to special reserve. Therefore, as of December 31, 2009, the time certificates of deposit amounting to \$35,380 thousand were reclassified to restricted assets, noncurrent. Please refer to Note 16.

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

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

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

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

The Company entered into derivative contracts during the years ended December 31, 2010 and 2009 to manage exposures to exchange rate fluctuations. The financial risk management objective of the Company is to minimize risks due to changes in fair value or cash flows.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

Available-for-sale financial assets, current as of December 31, 2010 and 2009 consist of the following:

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

## 7. NOTES AND ACCOUNTS RECEIVABLE

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

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

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

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

As of December 31, 2010 and 2009, the accounts receivable factoring is summarized as follows:

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

| Counter-parties            | Balance at Beginning of Year  | Factoring During the Year       | Amounts Collected During the Year | Balance at End of Year (Note 1) | Balance at End of Year of Advances Received | Interest Rates on Advances Received (%) | Retention for Factoring       | Credit Line    | Collateral     |
|----------------------------|-------------------------------|---------------------------------|-----------------------------------|---------------------------------|---|---|-------------------------------|----------------|----------------|
| <u>2010</u>                |                               |                                 |                                   |                                 |   |   |                               |                |                |
| Taishin International Bank | <u>\$ 34,045</u><br>(Note 2)  | <u>\$ 71,175</u><br>(Note 3)    | <u>\$ 50,862</u><br>(Note 4)      | <u>\$ 54,358</u><br>(Note 5)    | <u>\$ 48,922</u><br>(Note 6)                | 1.63                                    | <u>\$ 5,436</u><br>(Note 7)   | US\$ 9,200,000 | US\$ 920,000   |
| UPS & Fubon                | <u>\$ 258,329</u><br>(Note 8) | <u>\$ 2,227,885</u><br>(Note 9) | <u>\$ 2,223,077</u><br>(Note 10)  | <u>\$ 263,137</u><br>(Note 11)  | <u>\$ 236,823</u><br>(Note 12)              | 90 days Libor +3%                       | <u>\$ 26,314</u><br>(Note 13) | -              | -              |
| <u>2009</u>                |                               |                                 |                                   |                                 |   |   |                               |                |                |
| Taishin International Bank | <u>\$ -</u>                   | <u>\$ 69,132</u><br>(Note 3)    | <u>\$ 31,698</u><br>(Note 4)      | <u>\$ 37,434</u><br>(Note 5)    | <u>\$ 33,691</u><br>(Note 6)                | 1.43                                    | <u>\$ 3,743</u><br>(Note 7)   | US\$11,200,000 | US\$ 1,120,000 |
| UPS                        | <u>\$ 377,047</u><br>(Note 8) | <u>\$ 1,938,220</u><br>(Note 9) | <u>\$ 2,031,221</u><br>(Note 10)  | <u>\$ 284,046</u><br>(Note 11)  | <u>\$ 248,635</u><br>(Note 12)              | 90 days Libor +3%                       | <u>\$ 35,411</u><br>(Note 13) | -              | -              |

Note 1: Balance at end of year of factored receivables had been derecognized as accounts receivable.

Note 2: US\$1,168,725.

Note 3: US\$2,443,375; US\$2,158,367.

Note 4: US\$1,746,042; US\$989,642.

Note 5: US\$1,866,058; US\$1,168,725.

Note 6: US\$1,679,452; US\$1,051,853.

Note 7: US\$186,606; US\$116,872.

Note 8: US\$8,868,131; US\$11,771,673.

Note 9: US\$76,840,781; US\$60,512,648.

Note 10: US\$76,315,711; US\$63,416,190.

Note 11: US\$9,033,200; US\$8,868,131.

Note 12: US\$8,129,880; US\$7,762,557.

Note 13: US\$903,320; US\$1,105,574.

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

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

Test-Rite Int'l (U.S.) concluded accounts receivable financing agreements with a bank. The agreements declared that Test-Rite Int'l (U.S.) should be responsible for the risk of accounts receivable not being collected. As of December 31, 2009, accounts receivable of \$65,387 thousand was pledged to secure short-term bank borrowings (see Notes 17 and 30).

## 8. OTHER RECEIVABLES

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

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

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

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

## 9. INVENTORIES

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

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

As of December 31, 2010 and 2009, the allowance for inventory devaluation was \$186,628 thousand and \$114,033 thousand, respectively. The cost of inventories recognized as cost of goods sold for the years ended December 31, 2010 and 2009 was \$21,660,753 thousand and \$19,087,859 thousand, respectively. The cost of inventories of \$21,660,753 thousand included \$22,448 thousand of write downs of inventories and \$63,026 thousand of loss on physical inventory count for the year ended December 31, 2010; the cost of inventories of \$19,087,859 thousand included \$16,852 thousand of write downs of inventories and \$50 thousand of loss on physical inventory count for the year ended December 31, 2009.

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

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

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

Construction in progress is the inventories of Tony Construction, Chung Cin Interior Design Construction, Test Cin M&E Engineering and Viet Han.

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

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

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

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

|           | 2010          | 2009              |
|-----------|---------------|-------------------|
| TR Mexico | <u>\$ 301</u> | <u>\$ (3,077)</u> |

TR Mexico is engaged in importation and exportation.

###### 11. INVESTMENTS IN REAL ESTATE

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

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

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

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

## 13. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

|  | 2010                            |                   |                           | 2009              |                           |
|--|---------------------------------|-------------------|---------------------------|-------------------|---------------------------|
|  | Original<br>Accumulated<br>Cost | Carrying<br>Value | Ownership<br>Percentage % | Carrying<br>Value | Ownership<br>Percentage % |
| Hwa Jan International Co., Ltd.<br>(Samoa)   | \$ 9,849                        | \$ 8,856          | 19.00                     | \$ 9,737          | 19.00                     |
| TEPRO  | 430                             | 340               | 10.00                     | 415               | 10.00                     |
| Grandcathy Venture Capital Co.,<br>Ltd.      | 40,000                          | 40,000            | 5.00                      | 40,000            | 5.00                      |
| NCTU Springl Technology<br>Capital Co., Ltd. | 6,032                           | 6,032             | 4.69                      | 9,032             | 4.69                      |
| Yuan Chuang Co., Ltd.                        | 1,950                           | 1,950             | 1.67                      | 2,166             | 1.00                      |
| Techgains Pan-Pacific Co., Ltd.              | 19,191                          | 18,210            | 0.81                      | 19,080            | 0.81                      |
| Highlight Optoelectronics Inc.               | 3,713                           | 3,713             | 0.88                      | 3,713             | 0.88                      |
| Quartz Frequency Technology<br>Co., Ltd.     | 750                             | 750               | 0.43                      | 750               | 0.43                      |
| Taiwan Finance Co., Ltd.                     | 2,120                           | 2,120             | 0.04                      | 2,120             | 0.04                      |
| Emit Technology Co., Ltd.                    | 2                               | 2                 | -                         | 10,842            | 4.58                      |
| Nucom International Co., Ltd.                | 37,086                          | 27,400            | 1.57                      | 27,400            | 1.57                      |
| Hong Da Electronic Co., Ltd.                 | 2,000                           | -                 | 0.72                      | -                 | 0.72                      |
| Yieh United Steel Co., Ltd.                  | 3,920                           | 3,920             | 0.02                      | 3,920             | 0.02                      |
| China Semiconductor Co., Ltd.                | 767                             | -                 | -                         | 546               | 0.42                      |
| Shanghai Commercial & Saving<br>Bank, Ltd.   | <u>1,903</u>                    | <u>1,903</u>      | -                         | <u>1,903</u>      | -                         |
|  | <u>\$ 129,713</u>               | <u>\$ 115,196</u> |                           | <u>\$ 131,624</u> |                           |

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

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

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

|                                       | 2010                            |                   |                           | 2009              |                           |
|---------------------------------------|---------------------------------|-------------------|---------------------------|-------------------|---------------------------|
|                                       | Original<br>Accumulated<br>Cost | Carrying<br>Value | Ownership<br>Percentage % | Carrying<br>Value | Ownership<br>Percentage % |
| Subordinated bond of Ta Chong<br>Bank | <u>\$ 50,000</u>                | <u>\$ 50,000</u>  | -                         | <u>\$ 50,000</u>  | -                         |

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

## 15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Revaluation increments are recognized on Tong Lung.

Test-Rite sold a real property and leased it back immediately in consideration of business strategies. Based on generally accepted accounting principles, the profit from the sale and leaseback is required to be deferred and recognized evenly during the lease term. Test-Rite recorded \$2,347,885 thousand unrealized gain, which is amortized during 10-year lease term. For the years ended December 31, 2010 and 2009, the amortization of unrealized gain was \$234,788 thousand, which was treated as a reduction of rental cost. As of December 31, 2010 and 2009, the unrealized gain was \$1,643,520 thousand and \$1,878,308 thousand, respectively. Based on the liquidity of the unrealized gain, \$234,789 thousand was recorded under other current liability on both dates and \$1,408,731 thousand and \$1,643,519 thousand, respectively, were recorded under other liabilities - deferred credit.

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

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



## 16. OTHER ASSETS

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

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

## 17. SHORT-TERM BANK BORROWINGS

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

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

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

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

## 18. SHORT-TERM BILLS PAYABLE

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

|                             | 2010          |                  | 2009          |                  |
|-----------------------------|---------------|------------------|---------------|------------------|
|                             | Interest Rate |                  | Interest Rate |                  |
|                             | %             | Amount           | %             | Amount           |
| Commercial paper, unsecured | 1.0287        | <u>\$ 41,000</u> | 1.088         | <u>\$ 80,000</u> |

## 19. OTHER PAYABLES

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

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

## 20. OTHER CURRENT LIABILITIES

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

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

## 21. LONG-TERM DEBT

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

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

|   | Interest Rate | Amount     | Amount     |
|---|---------------|------------|------------|
| Shanghai Commercial & Savings Bank  |               |            |            |
| Unsecured loan from November 22, 2010 to November 22, 2014, the first installment on February 21, 2013 and principal due in eight quarterly installments. Interest is paid monthly.   | 1.56          | \$ 300,000 | \$ 200,000 |
| Unsecured loan from February 1, 2008 to March 1, 2010. Interest is paid monthly, principal due on monthly installment for 25 times.   | -             | -          | 600        |
| Land Bank's Syndicate Loan  |               |            |            |
| Unsecured loan from December 22, 2010 to July 25, 2012, and June 3, 2009 to July 25, 2012. Interest is paid monthly, principal due on July 25, 2012. The authorized credit line of \$3,000 million or US\$85 million may be used on revolving basis for a period until July 25, 2012. | 0.9025-1.2905 | 2,419,980  | 2,500,000  |
| Jihsun Bank   |               |            |            |
| Unsecured loan from September 21, 2010 to July 1, 2013. Interest is paid monthly, principal due on July 1, 2013.  | 1.57          | 200,000    | -          |
| Taiwan Business Bank  |               |            |            |
| Unsecured loan from November 22, 2010 to November 22, 2015. Principal is paid in 12 quarterly payments starting from February 15, 2013. Interest is paid monthly.   | 1.66          | 500,000    | -          |
| First Sino Bank   |               |            |            |
| Pledged loan from June 24, 2008 to June 23, 2013. Interest is paid monthly. Principal is paid monthly for 50 months starting from the second year after the day of the first borrowing.   | 5.5575-6.7586 | 102,718    | 45,418     |
| Taiwan Business Bank's Syndicate Loan   |               |            |            |
| Unsecured loan from October 26, 2009 to October 26, 2014. The authorized credit line is \$2,160,000 thousand, principal due on October 26, 2014.  | 1.7895-1.8421 | 750,000    | 820,000    |
| Yuanta Bank   |               |            |            |
| Pledged loan from December 11, 2008 to December 10, 2011. Interest is paid monthly. Principal paid in quarterly installments. In March 2010 and June 2010, the Company paid the principal in advance.   | 3.75          | -          | 300,000    |

(Continued)

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

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

**Taishin International Bank**

- Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1. (Liability ratio is total liabilities minus unrealized gain on sale-leaseback of office premises divided by tangible assets.)
- Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- The calculations of the ratios are based on the Test-Rite financial statements for the year ended December 31.

**Ta Chong Bank**

- Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1.
- Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 2.5 to 1.
- Minimum Tangible Net Worth, Test-Rite shall maintain Tangible Net Worth of not less than \$5,200,000 thousand.
- The calculations of the ratios are based on the Test-Rite financial statements for the year ended December 31.

**Bank SinoPac Co., Ltd.**

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

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

#### **Land Bank's Syndicate Loan**

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

#### **Jihsun Bank**

- a. Total Liabilities Ratio, Test-Rite shall maintain a ratio of Total Liabilities to Total Assets of not more than 2 to 1. (Liability ratio is total liabilities minus unrealized gain on sale-leaseback of office premises divided by tangible assets.)
- b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Current Liabilities of not less than 1 to 1.
- c. The calculations of the ratios are based on Test-Rite financial statements for the year ended December 31.

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

- a. Total Liabilities Ratio, Test-Rite shall maintain a ratio of Bank Loans and Bills Payable to Tangible Assets of not more than 2 to 1.
- b. Current Ratio, Test-Rite shall maintain a ratio of Current Assets to Short-Term Bank Loans and Short-Term Bills Payable of not less than 1 to 1.
- c. EBITDA Ratio, Test-Rite shall maintain a ratio of EBITDA to interest expense of greater than 3 to 1.
- d. The calculations of the ratios are based on Test-Rite Retail financial statements for the year ended December 31.

According to the loan agreement, Lih Chiou promised to maintain certain financial covenants as follows:

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

- b. The cash dividends received from Test-Rite Retail should be transferred to the bank account of Yuanta Bank.
- c. Lih Chiou had redeemed the long-term debt with Yuanta Bank in March 2010 and June 2010. Consequently, the pledges of time deposits and shares of Test-Rite Retail for Lih Chiou had been released. Please refer to Note 30.

See Note 30 for collaterals on bank borrowings.

See Note 29 for guarantees on bank borrowings.

## 22. LIABILITY COMPONENT OF PREFERRED STOCKS - NONCURRENT

|   | 2010              | 2009              |
|---|-------------------|-------------------|
| Private placement of liability component of series B preferred stocks | <u>\$ 326,996</u> | <u>\$ 318,631</u> |

### Private Placement of Liability Component of Preferred Stocks

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

- a. Issue period: The convertible preferred stocks will be due five years from the issuance date (from October 8, 2008 to October 7, 2013.)
- b. Dividends: The dividends for the convertible preferred stocks are 4% per annum. The dividends will be paid out in cash after earnings proposition is approved. When the preferred stocks are not held for one full year, at year end, dividends will be adjusted accordingly.
- c. Conversion ratio: One share of preferred stocks can be converted to one share of common stocks of the Issuer.
- d. Converting preferred stocks to common stocks of the Issuer
  - 1) Converting preferred stocks, in whole but not in part: From the issuance date to 120 days prior to the maturity date, preferred stockholders shall require the Issuer in preferred stockholders' meeting, held upon preferred stockholders' request, to repurchase all preferred stocks.
  - 2) Converting preferred stocks, in whole or in part: The preferred stocks are convertible, in whole or in part, at any time during the conversion period from the issuance date to 120 days prior to the maturity days. At the end of each conversion period, if potential converted preferred stocks are less than 15% in principal amount of preferred stocks originally outstanding, the conversion will not take effect. The preferred stockholders will then be notified by the security agent to retrieve their stocks and related documents.

e. Paying the dividends in arrears

- 1) After a year that the Issuer carries a net loss or does not have sufficient earnings for distribution, the dividends in arrears is accumulated and paid out the next year prior to distribution to common stockholders. Ways of handling dividends in arrears of preferred stocks, which are redeemed by the Issuer and converted to common stocks of the Issuer by stockholders, are specified in (2) and (3), respectively:
- 2) Preferred stocks redeemed by the Issuer: Dividends in arrears are calculated up to the date when the preferred stocks are redeemed by the Issuer.
- 3) Preferred stocks converted to common stocks by preferred stockholders: Dividends in arrears shall be paid in cash with no interests on the first dividend grant date subsequent to the date of conversion. In the case that the Issuer is prohibited by regulation to pay the dividends, the Issuer should pay such dividends in arrears with no interest to the stockholders on the first dividend grant date subsequent to the date when the regulation is lifted.

f. Redemption of preferred stock prior to the maturity date

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

g. Mandatory conversion prior to the maturity date

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

h. Maturity date

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

i. Special reserve

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

In accordance with SFAS No. 36, "Financial Instruments: Disclosure and Presentation," the Company divided preferred stocks into conversion option and put option, which are recognized as equity and liability, respectively. Equity component of preferred stocks which is recorded under minority interest amounted to \$25,690 thousand. Liability component of preferred stocks is charged to embedded derivatives and liabilities. As of December 31, 2010, embedded derivatives which are measured at fair value amounted to \$13,895 thousand; liabilities which do not belong to derivatives financial instruments amounted to \$326,996 thousand. As of the balance sheet date, none of the preferred stockholders requested to convert their preferred stocks into common stocks.

## 23. RETIREMENT PLAN

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

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

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

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

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

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



## 24. CAPITAL STOCK

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

|                         | 2010                | 2009                |
|-------------------------|---------------------|---------------------|
| Registered capital      |                     |                     |
| Share (thousand shares) | <u>660,000</u>      | <u>660,000</u>      |
| Par value (in dollars)  | <u>\$ 10</u>        | <u>\$ 10</u>        |
| Capital                 | <u>\$ 6,600,000</u> | <u>\$ 6,600,000</u> |
| Issued capital          |                     |                     |
| Share (thousand shares) | <u>516,423</u>      | <u>531,223</u>      |
| Par value (in dollars)  | <u>\$ 10</u>        | <u>\$ 10</u>        |
| Capital                 | <u>\$ 5,164,228</u> | <u>\$ 5,312,228</u> |

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

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

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

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

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

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

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

|  | <b>Year Ended December 31, 2010</b>                 |  |
|--|---|--|
|  | <b>Number of<br/>Options<br/>(In<br/>Thousands)</b> | <b>Weighted-<br/>average<br/>Exercise Price<br/>(NT\$)</b> |
| Balance, beginning of year   | -   | \$ -   |
| Options granted  | 7,500   | 13.70  |
| Additional options granted from stock dividends or<br>adjustment for options granted | -   | -  |
| Options forfeited  | -   | -  |
| Options exercised  | (4,483)   | 13.70  |
| Expired options invalidated  | <u>(3,017)</u>                                      | -  |
| Balance, end of year   | <u>-</u>  |  |

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

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

In the stockholders' meetings on June 15, 2010 and June 16, 2009, the stockholders decided to distribute retained earnings for 2009 and 2008 as follows:

|                 | <b>2009</b>                          |   |
|-----------------|--------------------------------------|---|
|                 | <b>Distributions<br/>of Earnings</b> | <b>Dividends<br/>Per Share<br/>(In Dollars)</b> |
| Legal reserve   | \$ 13,677                            | \$ -  |
| Cash dividends  | 125,825                              | 0.26  |
|                 | <b>2008</b>                          |   |
|                 | <b>Distributions<br/>of Earnings</b> | <b>Dividends<br/>Per Share<br/>(In Dollars)</b> |
| Legal reserve   | \$ 23,382                            | \$ -  |
| Cash dividends  | 149,235                              | 0.35  |
| Stock dividends | 63,958                               | 0.15  |

The bonus to employees of \$9,848 thousand and \$17,334 thousand and the bonus to directors and supervisors of \$2,462 thousand and \$4,209 thousand directly charged to expense were approved in the stockholders' meeting. Bonus to employees in 2008 was all distributed through 1,161,014 shares of common stock of Test-Rite. The number of shares of 1,161,014 thousand was determined by dividing the amount of share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting. The shares have face value of \$10 each. Therefore, \$11,610 thousand was recorded under paid-in capital and \$5,724 thousand was transferred to additional paid-in capital under capital surplus as the capital registration process was completed. The amounts of the bonus to employees and the bonus to directors and supervisors approved in 2010 were \$9,848 thousand and \$2,462 thousand and the related amounts accrued in 2009 were \$9,300 thousand and \$1,900 thousand or differences of \$548 thousand and \$562 thousand, respectively. The amounts of the bonus to employees and the bonus to directors and supervisors approved in 2009 were \$17,334 thousand and \$4,209 thousand and the related amounts accrued in 2008 were \$19,000 thousand and \$4,800 thousand or differences of \$1,666 thousand and \$(591) thousand, respectively. The differences were not material and had been adjusted in profit and loss for the years ended December 31, 2010 and 2009.

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

|   | 2010                                     |   |   |                         |   |   |   |
|---|--|---|---|-------------------------|---|---|---|
|   | Amounts (Numerator)                      |   |   | Shares<br>(Denominator) | EPS (NT\$)                                  |   |   |
|   | Income Before<br>Tax Include<br>Minority | Income After<br>Tax Include<br>Minority | Parent Co.<br>Stockholders<br>Income After<br>Tax |                         | Income<br>Before Tax<br>Include<br>Minority | Income After<br>Tax Include<br>Minority | Parent Co.<br>Stockholders<br>Income After<br>Tax |
| Basic earnings per share  |  |   |   |                         |   |   |   |
| Net income to stockholders of<br>common stock   | \$ 871,643                               | \$ 620,166                              | \$ 486,818  | 483,942,872             | \$ 1.80                                     | \$ 1.28                                 | \$ 1.01   |
| The effects of dilutive potential<br>ordinary shares  |  |   |   |                         |   |   |   |
| Bonus to employees  | -  | -                                       | -   | 1,252,174               | -   | (0.01)                                  | (0.01)  |
| Diluted earnings per share  |  |   |   |                         |   |   |   |
| Net income to stockholders of<br>common stock and the effects<br>of potential ordinary shares | <u>\$ 871,643</u>                        | <u>\$ 620,166</u>                       | <u>\$ 486,818</u>                                 | <u>485,195,046</u>      | <u>\$ 1.80</u>                              | <u>\$ 1.27</u>                          | <u>\$ 1.00</u>                                    |
|   |  |   |   |                         |   |   |   |
|   | 2009                                     |   |   |                         |   |   |   |
|   | Amounts (Numerator)                      |   |   | Shares<br>(Denominator) | EPS (NT\$)                                  |   |   |
|   | Income Before<br>Tax Include<br>Minority | Income After<br>Tax Include<br>Minority | Parent Co.<br>Stockholders<br>Income After<br>Tax |                         | Income<br>Before Tax<br>Include<br>Minority | Income After<br>Tax Include<br>Minority | Parent Co.<br>Stockholders<br>Income After<br>Tax |
| Basic earnings per share  |  |   |   |                         |   |   |   |
| Net income to stockholders of<br>common stock   | \$ 387,098                               | \$ 233,403                              | \$ 136,771  | 447,230,543             | \$ 0.87                                     | \$ 0.52                                 | \$ 0.31   |
| The effects of dilutive potential<br>ordinary shares  |  |   |   |                         |   |   |   |
| Bonus to employees  | -  | -                                       | -   | 519,553                 | (0.01)                                      | -                                       | -   |
| Diluted earnings per share  |  |   |   |                         |   |   |   |
| Net income to stockholders of<br>common stock and the effects<br>of potential ordinary shares | <u>\$ 387,098</u>                        | <u>\$ 233,403</u>                       | <u>\$ 136,771</u>                                 | <u>447,750,096</u>      | <u>\$ 0.86</u>                              | <u>\$ 0.52</u>                          | <u>\$ 0.31</u>                                    |

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

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

Regarding the 2009 and 2008 retained earnings proposition by the board of directors and the approval of the stockholders' meeting, please refer to the Market Observation Post System ("MOPS") of the Taiwan Stock Exchange.

For the years ended December 31, 2010 and 2009, the bonus to employees was \$28,800 thousand and \$9,300 thousand, respectively, and the bonuses to directors and supervisors were \$7,300 thousand and \$1,900 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represented 8% and 2%, respectively, of net income (net of the bonus and remuneration). Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

## 25. RETAINED EARNINGS

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

- a. Bonus to directors and supervisors - 2%, and
- b. Bonus to employees - at least 2% or more,
- c. The remainder shall then be allocated in accordance with the resolution of the stockholders in their annual meeting.

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

## 26. TREASURY STOCK

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

| Purpose                  | 2010.1.1          | Increase | Decrease          | 2010.12.31        |
|--------------------------|-------------------|----------|-------------------|-------------------|
| To transfer to employees | <u>47,280,000</u> | <u>-</u> | <u>14,800,000</u> | <u>32,480,000</u> |
| Purpose                  | 2009.1.1          | Increase | Decrease          | 2009.12.31        |
| To transfer to employees | <u>47,280,000</u> | <u>-</u> | <u>-</u>          | <u>47,280,000</u> |

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

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

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

According to the Stock Exchange Law of the ROC, the shares of treasury stock should not be over 10% of Test-Rite's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The highest number of shares of treasury stock that Test-Rite held as of December 31, 2010 and 2009 was both 47,280,000 shares and the total amount was both \$897,297 thousand pursuant to the law.

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

## 27. PERSONNEL, DEPRECIATION, AND AMORTIZATION EXPENSES

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

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

## 28. INCOME TAX

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

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

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

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

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

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

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

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

| <b>Year Expired</b> | <b>Amount</b>    |
|---------------------|------------------|
| 2013                | \$ 1,100         |
| 2018                | 2,290            |
| 2019                | <u>7,290</u>     |
|                     | <u>\$ 10,680</u> |

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

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

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

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

The income tax returns of Test-Rite for years through 2008 have been examined and approved by the tax authority. The tax authority assessed an additional income tax payable because Test-Rite did not obtain legal evidence for commission expenses and others which Test-Rite reported on its 2006 to 2008 income tax returns. Test-Rite did not agree with the decision so it filed an appeal to the tax authority. Test-Rite does not expect the result of the appeal will generate any significant loss to the Company based on its previous experience. Therefore, Test-Rite decided not to record the disputed tax payable on its book.

## 29. RELATED PARTY TRANSACTIONS

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

| Name   | Relationship                                   |
|--|--|
| Test-Rite Int’l (Mexico) Ltd. (“TR Mexico”)            | Parent company holds 49.00% ownership interest |
| Tony Ho  | Related party in substance                     |
| Judy Lee   | Chairman of Test-Rite                          |
| Up Master Investment Co., Ltd. (“Up Master”)           | Related party in substance                     |
| Li Xiong Co., Ltd.                                     | Up Master holds 100.00% ownership interest     |
| X-Cel Relationship Management Co., Ltd.                | Related party in substance                     |
| Quality Master Investment Co., Ltd. (“Quality Master”) | Related party in substance                     |

### Rental Income

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

|        | 2010          |          | 2009          |          |
|--------|---------------|----------|---------------|----------|
|        | Amount        | %        | Amount        | %        |
| Others | <u>\$ 201</u> | <u>-</u> | <u>\$ 201</u> | <u>-</u> |

**Service Income**

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

|        | <b>2010</b>   |          | <b>2009</b>   |          |
|--------|---------------|----------|---------------|----------|
|        | <b>Amount</b> | <b>%</b> | <b>Amount</b> | <b>%</b> |
| Others | <u>\$ 960</u> | <u>5</u> | <u>\$ 960</u> | <u>5</u> |

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

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

|           | <b>2010</b>      |          | <b>2009</b>      |          |
|-----------|------------------|----------|------------------|----------|
|           | <b>Amount</b>    | <b>%</b> | <b>Amount</b>    | <b>%</b> |
| TR Mexico | <u>\$ 18,755</u> | <u>8</u> | <u>\$ 15,926</u> | <u>6</u> |

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

**Due from Related Parties**

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

|                              | <b>2010</b>     |            | <b>2009</b>     |            |
|------------------------------|-----------------|------------|-----------------|------------|
|                              | <b>Amount</b>   | <b>%</b>   | <b>Amount</b>   | <b>%</b>   |
| Advances for related parties |                 |            |                 |            |
| TR Mexico                    | <u>\$ 5,809</u> | <u>100</u> | <u>\$ 5,683</u> | <u>100</u> |

**Due to Related Parties**

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

|                             | <b>2010</b>   |          | <b>2009</b>     |          |
|-----------------------------|---------------|----------|-----------------|----------|
|                             | <b>Amount</b> | <b>%</b> | <b>Amount</b>   | <b>%</b> |
| Accrued commission expenses |               |          |                 |          |
| TR Mexico                   | <u>\$ 711</u> | <u>2</u> | <u>\$ 1,296</u> | <u>3</u> |

**Payment of Credit Guarantees**

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

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

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



As of December 31, 2010, long-term debt of \$900,000 thousand was guaranteed by Tony Ho and Judy Lee. Long-term debt of \$2,419,980 thousand was guaranteed by Tony Ho and \$1,500,000 thousand was guaranteed by Judy Lee.

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

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

|            | <b>Years Ended December 31</b> |                   |
|------------|--------------------------------|-------------------|
|            | <b>2010</b>                    | <b>2009</b>       |
| Salaries   | \$ 157,458                     | \$ 136,991        |
| Incentives | 8,143                          | 15,763            |
| Bonuses    | <u>13,212</u>                  | <u>-</u>          |
|            | <u>\$ 178,813</u>              | <u>\$ 152,754</u> |

Compensation of directors, supervisors and management personnel for 2010 was estimated according to the order of making appropriations from net income regulated by the Company's Articles of Incorporation. The appropriations of earnings for 2010 have not been approved in the shareholders' meeting. The information about the compensation of directors and management personnel is available in the annual report for stockholders' meeting.

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

### **30. PLEDGED ASSETS**

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

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

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

### **31. COMMITMENTS AND CONTINGENCIES**

#### **Letter of Credit**

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

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

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

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

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

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

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

As of December 31, 2010, Tong Lung has refundable deposits paid in banks of \$47,530 thousand in order to purchase raw material.

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

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

## 32. DISCLOSURES FOR FINANCIAL INSTRUMENTS

### Nominal Amount and Credit Risk

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

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

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

The exchange gains on the sale or purchase of derivative financial instruments of \$117,147 thousand and \$163,612 thousand for the years ended December 31, 2010 and 2009, respectively, are recorded under nonoperating income - exchange gain.

### Market Risk

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

### Liquidity Risk and Cash Flow Risk

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

### Fair Value of Financial Instruments

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

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

(Continued)

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

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

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

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

- Financial instruments classified as current assets and liabilities will mature within a short period of time. Therefore, they should be recognized at fair value. Fair value recognition can be applied to financial instruments including cash and cash equivalents, notes receivable, accounts receivable, short-term bank borrowings, short-term bills payable, notes payable, accounts payable, and other financial instruments, etc.
- If the price of marketable securities is obtainable, they should be measured at fair value. Otherwise, other information can be used to estimate these financial securities' fair value.

- c. Fair value of long-term debts is estimated using the present value of future cash flows discounted by the interest rates the company may obtain for similar loans.
- d. The fair value of derivative financial instruments is the amount which the Company expects to receive or pay if the Company stops the contracts according to the agreement at the balance sheet date. Generally, the amounts included unrealized gain or loss on outstanding contracts and most of them have reference value from financial organizations.

#### **Fair Value Measurement on Financial Assets and Liabilities**

|   | <b>Market Value</b> | <b>Other<br/>Estimation<br/>Method</b> | <b>Total</b> |
|---|---------------------|--|--------------|
| <b>Assets</b>   |                     |  |              |
| Financial assets at fair value through profit or loss, current      | \$ 515,014          | \$ 84,351                              | \$ 599,365   |
| Available-for-sale financial assets, current                        | 2,301               | -                                      | 2,301        |
| Available-for-sale financial assets, noncurrent                     | 29,209              | -                                      | 29,209       |
| <b>Liabilities</b>  |                     |  |              |
| Financial liabilities at fair value through profit or loss, current | -                   | 15,234                                 | 15,234       |

### **33. OPERATING LEASE**

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

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

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

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

| <b>Period</b> | <b>Amount</b>   |
|---------------|-----------------|
| 2011          | \$ 247          |
| 2012          | 255             |
| 2013          | 262             |
| 2014          | 270             |
| 2015          | <u>68</u>       |
|               | <u>\$ 1,102</u> |

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

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

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

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

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

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

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

| <b>Period</b> | <b>Amount</b>           |
|---------------|-------------------------|
| 2011          | \$ 8,510                |
| 2012          | 9,337                   |
| 2013          | 3,546                   |
| 2014          | <u>709</u>              |
|               | <u><u>\$ 22,102</u></u> |

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

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

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

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

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

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

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



### 34. SEGMENT INFORMATION

#### Business Segments

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

|   | 2010                 |                      |                       |                      |                                  |                      |
|---|----------------------|----------------------|-----------------------|----------------------|----------------------------------|----------------------|
|   | Retail Segment       | Trading Segment      | Manufacturing Segment | Construction Segment | Reclassification and Elimination | Total                |
| Net sales and operating revenues                                    |                      |                      |                       |                      |                                  |                      |
| External  | \$ 18,431,365        | \$ 9,408,487         | \$ 3,066,968          | \$ 1,701,218         | \$ -                             | \$ 32,608,038        |
| Internal  | -                    | 6,759,397            | -                     | 873,644              | (7,633,041)                      | -                    |
|   | <u>\$ 18,431,365</u> | <u>\$ 16,167,884</u> | <u>\$ 3,066,968</u>   | <u>\$ 2,574,862</u>  | <u>\$ (7,633,041)</u>            | <u>\$ 32,608,038</u> |
| Operating profit  | <u>\$ 661,861</u>    | <u>\$ 344,883</u>    | <u>\$ 255,591</u>     | <u>\$ 178,431</u>    | <u>\$ (386,358)</u>              | \$ 1,054,408         |
| Investment loss   |                      |                      |                       |                      |                                  | 301                  |
| Interest expenses   |                      |                      |                       |                      |                                  | (183,066)            |
| Income before income tax (before distribution to minority interest) |                      |                      |                       |                      |                                  | <u>\$ 871,643</u>    |
| Identifiable assets   | <u>\$ 9,746,669</u>  | <u>\$17,110,086</u>  | <u>\$ 2,776,816</u>   | <u>\$ 1,756,056</u>  | <u>\$ (8,427,942)</u>            | \$ 22,961,685        |
| Long-term investments   |                      |                      |                       |                      |                                  | 209,665              |
| Total assets  |                      |                      |                       |                      |                                  | <u>\$ 23,171,350</u> |
|   | 2009                 |                      |                       |                      |                                  |                      |
|   | Retail Segment       | Trading Segment      | Manufacturing Segment | Construction Segment | Reclassification and Elimination | Total                |
| Net sales and operating revenues                                    |                      |                      |                       |                      |                                  |                      |
| External  | \$ 15,749,675        | \$ 10,026,813        | \$ 2,358,875          | \$ 912,287           | \$ -                             | \$ 29,047,650        |
| Internal  | -                    | 5,313,177            | -                     | 238,796              | (5,551,973)                      | -                    |
|   | <u>\$ 15,749,675</u> | <u>\$ 15,339,990</u> | <u>\$ 2,358,875</u>   | <u>\$ 1,151,083</u>  | <u>\$ (5,551,973)</u>            | <u>\$ 29,047,650</u> |
| Operating profit  | <u>\$ 380,894</u>    | <u>\$ 319,924</u>    | <u>\$ 188,834</u>     | <u>\$ 75,730</u>     | <u>\$ (358,514)</u>              | \$ 606,868           |
| Investment loss   |                      |                      |                       |                      |                                  | 3,077                |
| Interest expenses   |                      |                      |                       |                      |                                  | (222,847)            |
| Income before income tax (before distribution to minority interest) |                      |                      |                       |                      |                                  | <u>\$ 387,098</u>    |
| Identifiable assets   | <u>\$ 9,177,316</u>  | <u>\$ 16,613,878</u> | <u>\$ 2,458,101</u>   | <u>\$ 1,598,470</u>  | <u>\$ (7,846,390)</u>            | \$ 22,001,375        |
| Long-term investments   |                      |                      |                       |                      |                                  | 220,689              |
| Total assets  |                      |                      |                       |                      |                                  | <u>\$ 22,222,064</u> |

#### Foreign Sales

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

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

## Geographical Segments

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

| 2010  |                      |                     |                   |                     |                   |                                  |                      |
|---|----------------------|---------------------|-------------------|---------------------|-------------------|----------------------------------|----------------------|
|   | Taiwan               | Worldwide           |                   |                     | Others            | Reclassification and Elimination | Total                |
|   |                      | Asia                | Europe            | America             |                   |                                  |                      |
| Net sales and operating revenues                                    |                      |                     |                   |                     |                   |                                  |                      |
| External  | \$ 24,214,301        | \$ 4,356,147        | \$ 433,941        | \$ 3,603,455        | \$ 194            | \$ -                             | \$ 32,608,038        |
| Internal  | <u>7,633,041</u>     | <u>-</u>            | <u>-</u>          | <u>-</u>            | <u>-</u>          | <u>(7,633,041)</u>               | <u>-</u>             |
|   | <u>\$ 31,847,342</u> | <u>\$ 4,356,147</u> | <u>\$ 433,941</u> | <u>\$ 3,603,455</u> | <u>\$ 194</u>     | <u>\$ (7,633,041)</u>            | <u>\$ 32,608,038</u> |
| Operating profit (loss)   | <u>\$ 1,732,716</u>  | <u>\$ (425,824)</u> | <u>\$ 27,379</u>  | <u>\$ 115,711</u>   | <u>\$ (9,216)</u> | <u>\$ (386,358)</u>              | \$ 1,054,408         |
| Investment loss   |                      |                     |                   |                     |                   |                                  | 301                  |
| Interest expenses   |                      |                     |                   |                     |                   |                                  | <u>(183,066)</u>     |
| Income before income tax (before distribution to minority interest) |                      |                     |                   |                     |                   |                                  | <u>\$ 871,643</u>    |
| Identifiable assets   | <u>\$ 27,032,077</u> | <u>\$ 2,839,511</u> | <u>\$ 321,794</u> | <u>\$ 1,118,321</u> | <u>\$ 77,924</u>  | <u>\$ (8,427,942)</u>            | \$ 22,961,685        |
| Long-term investments   |                      |                     |                   |                     |                   |                                  | <u>209,665</u>       |
| Total assets  |                      |                     |                   |                     |                   |                                  | <u>\$ 23,171,350</u> |
| 2009  |                      |                     |                   |                     |                   |                                  |                      |
|   | Taiwan               | Worldwide           |                   |                     | Others            | Reclassification and Elimination | Total                |
|   |                      | Asia                | Europe            | America             |                   |                                  |                      |
| Net sales and operating revenues                                    |                      |                     |                   |                     |                   |                                  |                      |
| External  | \$ 22,515,535        | \$ 3,319,248        | \$ 357,185        | \$ 2,855,555        | \$ 127            | \$ -                             | \$ 29,047,650        |
| Internal  | <u>5,551,973</u>     | <u>-</u>            | <u>-</u>          | <u>-</u>            | <u>-</u>          | <u>(5,551,973)</u>               | <u>-</u>             |
|   | <u>\$ 28,067,508</u> | <u>\$ 3,319,248</u> | <u>\$ 357,185</u> | <u>\$ 2,855,555</u> | <u>\$ 127</u>     | <u>\$ (5,551,973)</u>            | <u>\$ 29,047,650</u> |
| Operating profit (loss)   | <u>\$ 1,456,391</u>  | <u>\$ (555,404)</u> | <u>\$ 23,319</u>  | <u>\$ 50,765</u>    | <u>\$ (9,689)</u> | <u>\$ (358,514)</u>              | \$ 606,868           |
| Investment loss   |                      |                     |                   |                     |                   |                                  | 3,077                |
| Interest expenses   |                      |                     |                   |                     |                   |                                  | <u>(222,847)</u>     |
| Income before income tax (before distribution to minority interest) |                      |                     |                   |                     |                   |                                  | <u>\$ 387,098</u>    |
| Identifiable assets   | <u>\$ 25,590,438</u> | <u>\$ 2,734,991</u> | <u>\$ 200,169</u> | <u>\$ 1,239,820</u> | <u>\$ 82,347</u>  | <u>\$ (7,846,390)</u>            | \$ 22,001,375        |
| Long-term investments   |                      |                     |                   |                     |                   |                                  | <u>220,689</u>       |
| Total assets  |                      |                     |                   |                     |                   |                                  | <u>\$ 22,222,064</u> |

## VII. Review of Financial Conditions, Operating Results, and Risk Management

### 7.1 Analysis of Financial Status

Unit : NTD\$ thousand

| Item \ Year                       | 2009             | 2010             | Difference       |               |
|-----------------------------------|------------------|------------------|------------------|---------------|
|                                   |                  |                  | Amount           | %             |
| Current Assets                    | 3,624,004        | 3,585,822        | (38,182)         | -1.05         |
| Fixed Assets                      | 8,923,554        | 9,640,944        | 717,390          | 8.04          |
| Other Assets                      | 623,274          | 609,447          | (13,827)         | -2.22         |
| <b>Total Assets</b>               | <b>48,609</b>    | <b>63,453</b>    | <b>14,844</b>    | <b>30.54</b>  |
| Current Liabilities               | 773,712          | 682,149          | (91,563)         | -11.83        |
| Long-term Liabilities             | 13,993,153       | 14,581,815       | 588,662          | 4.21          |
| <b>Total Liabilities</b>          | <b>1,760,559</b> | <b>1,574,074</b> | <b>(186,485)</b> | <b>-10.59</b> |
| Capital stock                     | 3,966,667        | 4,819,980        | 853,313          | 21.51         |
| Capital surplus                   | 2,230,744        | 1,847,846        | (382,898)        | -17.16        |
| Retained Earnings                 | 7,957,970        | 8,241,900        | 283,930          | 3.57          |
| Other Adjustments                 | 5,312,228        | 5,164,228        | (148,000)        | -2.79         |
| <b>Total Stockholders' Equity</b> | <b>721,731</b>   | <b>701,623</b>   | <b>(20,108)</b>  | <b>-2.79</b>  |
| Current Assets                    | 833,878          | 1,082,099        | 248,221          | 29.77         |
| Fixed Assets                      | (832,654)        | (608,035)        | 224,619          | 26.98         |
| Other Assets                      | 6,035,183        | 6,339,915        | 304,732          | 5.05          |

Analysis of changes in financial ratios:

- (1) 、 The increase of intangible assets was due to the increase of software development.
- (2) 、 The increase of long term liabilities was due to the increase of long-term debt.
- (3) 、 The increase of Retained Earnings was due to the increase of net profit after tax.
- (4) 、 The increase of stockholders' equity was due to the Cancellation of treasury stock 14,800,000 shares in 2010.

## 7.2 Analysis of Operating Results

Unit : NTD\$ thousand

| Item \ Year  | 2009       | 2010       | Difference |          |
|--|------------|------------|------------|----------|
|  |            |            | Amount     | %        |
| Net Sales  | 10,627,889 | 11,513,995 | 886,106    | 8.34%    |
| Cost of Sales  | 8,666,886  | 9,280,459  | 613,573    | 7.08%    |
| Gross Profit   | 1,961,003  | 2,233,536  | 272,533    | 13.90%   |
| Operating Expenses                                   | 1,794,365  | 2,011,279  | 216,914    | 12.09%   |
| Operating Income                                     | 166,638    | 222,257    | 55,619     | 33.38%   |
| Non-operating Income and Gains                       | 283,473    | 534,982    | 251,509    | 88.72%   |
| Non-operating Expenses and Losses                    | 284,340    | 140,521    | (143,819)  | -50.58%  |
| Income Before Tax                                    | 165,771    | 616,718    | 450,947    | 272.03%  |
| Tax Benefit (Expense)                                | (29,000)   | (129,900)  | (100,900)  | -347.93% |
| Cumulative Effect of Change in Accounting Principles | 136,771    | 486,818    | 350,047    | 255.94%  |

### ● Effect of change on the company's future business:.

- (1) 、The increase of operating income was due to the increase of net sales and gross profit.
- (2) 、The increase of Non-operating Income and Gains was due to the increase of investment profit by equity method.
- (3) 、The reduction of Non-operating Expenses and Losses was due to the deduction of investment losses by equity method.
- (4) 、The increase of profit before tax was due to the increase of operating income and non-operating income, and the deduction of non-operating expenses and losses.
- (5) 、The increase of tax expense was due to the increase of the taxable income.
- (6) 、The increase of net profit was due to the increase of operating income 、non-operating income and gains and deduction of non-operating expenses and losses.

### ● Future response plans :

Faced with a rapidly changing and competitive landscape, Test-Rite has leveraged its +30 years of success in the trading business while continuing to strengthen our product offerings for our trading customers. These services, encompass product and packaging design, logistics, and storage/warehousing capacities, enable Test-Rite to provide a Total Solution service that we believe is necessary to further strength or role within the supply to chain to global retail operators. As a result, Test-Rite is able to facilitate cooperative efficiency between our customers and suppliers and create value-added services for our trading partners. Recently, Taiwanese and Chinese authorities adopted policies aimed at curbing the overheated real estate markets. These policies may have potential impact on our retail businesses in the near-term, but we remain optimistic about our growth prospects of our retail channels. Taiwanese consumers will likely to continued seek to improve their standard of living via upgrades/replacement of home related products, while China's 12th 5-Year Plan is aimed at tipping the growth drivers to a more domestic/consumption driven economy. We see no shortage of growth opportunities for both our trading and retail businesses.

## 7.3 Analysis of Cash Flow

### 7.3.1 Cash Flow Analysis for the Current Year

Unit : NTD\$ thousand

| Cash and Cash Equivalents, Beginning of Year<br>(1) | Net Cash Flow from Operating Activities<br>(2) | Cash Outflow<br>(3) | Cash Surplus (Deficit)<br>(1)+(2)-(3) | Leverage of Cash Deficit |                 |
|---|--|---------------------|---------------------------------------|--------------------------|-----------------|
|   |  |                     |                                       | Investment Plans         | Financing Plans |
| 298,099   | 312,200  | (373,689)           | 236,610                               | —                        | —               |

- (1). Operating activities: The net cash inflow from operating activities of NT\$312,200,000 was the result of good performance in the current period and also from the distribution of cash dividends from the Company's affiliated enterprises.
- (2). Investment activities: The net cash outflow from investment activities of NT\$1,017,474,000 was the result of investment in long-term equity calculated based on the weighted equity method for the current period.
- (3). Financing activities: The net cash inflow from financing activities of NT\$643,785,000 was the result of the reduction in short-term loans and increase in long-term loans as well as the distribution of cash dividends.

### 7.3.2 Analysis of financial ratio change: Improvement plan for inadequate liquidity:

Inadequate liquidity does not apply to the Company.

### 7.3.3 Cash Flow Analysis for the Coming Year

Unit : NTD\$ thousand

| Cash and Cash Equivalents, Beginning of Year<br>(1) | Net Cash Flow from Operating Activities<br>(2) | Cash Outflow<br>(3) | Cash Surplus (Deficit)<br>(1)+(2)-(3) | Leverage of Cash Deficit |                 |
|---|--|---------------------|---------------------------------------|--------------------------|-----------------|
|   |  |                     |                                       | Investment Plans         | Financing Plans |
| 236,610   | 169,757  | (212,064)           | —                                     | —                        | —               |

Analysis of cash flow changes for the coming year:

- A. Operating activities: Dividend repatriations from subsidiaries resulted in a net cash inflow from operating activities of NT\$169,757,000.
- B. Investment and financing activities: The Company increased activities in the mainland market and provided additional investments to subsidiaries in China; continued to implement ERP equipment and planned to distribute cash dividends to shareholders and transfer ownership of treasury shares to employees. Investment and financing activities for the entire year created a net cash outflow of NT\$212,064,000, thus there is no issue of inadequate liquidity.

## 7.4 Major Capital Expenditure Items

Test-Rite sold a real estate (Neihu HQ Building) and leased it back immediately in consideration of its business need. Based on generally accepted accounting principles, the profit from the sale and leaseback is required to be deferred and recognized evenly during the lease term. Test-Rite recorded \$2,347,885 thousand unrealized gain, which is amortized during 10-year lease term. For the years ended December 31, 2010 and 2009, the amortization of unrealized gain was \$234,788 thousand, which was treated as a reduction of rental cost. As of December 31, 2010 and 2009, the unrealized gain was \$1,643,520

thousand and \$1,878,308 thousand, respectively. As a result, \$234,789 thousand was recorded under other current liability and \$1,408,731 thousand and \$1,643,519 thousand, were booked under other liabilities - deferred credit for 2010 and 2009.

## 7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

### 7.5.1 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans

The Company's long-term investment policy is inline with its operating and strategic development plans, and carefully planned investment activities are conducted and managed at home and abroad within acceptable risk tolerance. In addition to complying with government regulations, our operations and practices are conducted in accordance with the Company's established Guidelines for Managing Long- and Short-term Investment Operations and Guidelines for the Acquisition or Disposal of Assets in order to effectively manage, monitor and control the financial and operating status of our subsidiaries.

(Unit: NT\$ thousands)

| Item \ Remarks                          | Original investment amount | Policies                         | Reasons for gain or loss  | Action plan  |
|---|----------------------------|----------------------------------|---|--|
| Fortune Miles Co., Ltd.                 | 941                        | Investment holding company       | This was due mainly to the trading company under Fortune Miles remained operating at a loss, and therefore the equity method must be used to recognize the losses.  | Partnering with manufacturers with more favorable cost competitive advantages.         |
| Test-Rite Fortune Co., Ltd.             | 6,271                      | Investment holding company       | In 2010, the process of dissolving and liquidating Jiashan Test Rite Warehousing (Shanghai) Co., Ltd. was completed. All funds associated with our equity ownership have been remitted back to the Company. | NA   |
| Test-Rite Star Co., Ltd.                | 38,148                     | Investment holding company       | This was due mainly to the investment in the holding company of Hwa Jan Int'l Co., Ltd., the losses of which were recognized under the equity method.   | Improving operational performance and establish tighter control on costs and expenses. |
| Test-Rite Investment (B.V.I.) Co., Ltd. | 33,381                     | Investment in various industries | Loss recognized by equity method  | Improve operational performance  |
| Test-Rite Retailing Co., Ltd.           | 2,207,297                  | Investment holding company       | This was due mainly to the fact that the holding company that invested in   | NA   |

| Item \ Remarks                       | Original investment amount | Policies                    | Reasons for gain or loss  | Action plan  |
|--------------------------------------|----------------------------|-----------------------------|---|--|
|                                      |                            |                             | the retail operations of HOLA China was in the process of expanding new stores and the costs incurred prior to launching the stores must be recognized under the equity method. |  |
| B&S Link Co., Ltd. (Cayman)          | 27,473                     | Investment holding company  | Profit recognized by equity method  | NA   |
| Test-Rite Trading Co., Ltd.          | 1,044,918                  | Investment holding company  | This was due mainly to the investment in the holding company of China Trading subsidiaries, the losses of which were recognized under the equity method.                        | Establish tighter control on costs and expenses.   |
| TRS Investment Co., Ltd.             | 76,717                     | Investment holding company  | This was due mainly to the investment in the holding company of Jiashan Te-Cheng Wood Industrial Co., Ltd., the profit of which was recognized under the equity method.         | NA   |
| Test-Rite Pte. Ltd.                  | 66,625                     | Importation and exportation | Profit recognized by equity method  | NA   |
| Test-Rite Product (Hong Kong) Ltd.   | 11,513                     | Importation and exportation | Profit recognized by equity method  | NA   |
| Test-Rite Int'l (Australia) Pty Ltd. | 46,995                     | Importation and exportation | Loss recognized by equity method  | Review and improve operational performance and establishing tighter control on costs and expenses. |
| Test-Rite Vietnam Co., Ltd.          | 22,162                     | Importation and exportation | Loss recognized by equity method  | Review and improve operational performance and establishing tighter control on costs and expenses. |
| Test-Rite Canada Co., Ltd.           | 21,322                     | Importation and exportation | Loss recognized by equity method  | Review and improve operational performance and establishing tighter control on costs and expenses. |
| Test-Rite (UK) Co., Ltd.             | 42,010                     | Importation and exportation | Loss recognized by equity method  | Review and improve operational performance and establishing tighter control on costs and expenses. |
| Test-Rite                            | 402,097                    | Investment                  | This was due mainly to the  | NA   |

| Item \ Remarks                          | Original investment amount | Policies   | Reasons for gain or loss  | Action plan  |
|---|----------------------------|--|---|--|
| Development Co., Ltd.                   |                            | holding company  | investment in the holding company of our European trading sub-subsidiary, the profits of which were recognized under the equity method. |  |
| Test-Rite Int'l (U.S.) Co., Ltd.        | 183,887                    | Importation and exportation  | Profit recognized by equity method  | NA   |
| Test Rite de Mexico, S.A. de C.V.       | 4,493                      | Importation and exportation  | Profit recognized by equity method  | NA   |
| Test-Rite Int'l (Thailand) Ltd.         | 21,009                     | Importation and exportation  | Loss recognized by equity method  | Review and improve operational performance and establishing tighter control on costs and expenses. |
| Lih Chiou Co., Ltd.                     | 4,182,737                  | Investment holding company   | Profit recognized by equity method  | NA   |
| Lih Teh International Co., Ltd.         | 200,984                    | Logistics services   | Profit recognized by equity method  | NA   |
| B&S Link Co., Ltd.                      | 49,994                     | Providing information software and electronic information  | Profit recognized by equity method  | NA   |
| Fusion International Distribution, Inc. | 30,721                     | Importation and exportation  | Profit recognized by equity method  | NA   |
| Chung Cin Enterprise Co., Ltd.          | 766,906                    | Authorized builder to build dwelling, rental and sale of building  | Profit recognized by equity method  | NA   |
| Tong Lung Metal Industry Co., Ltd.      | 2,180,270                  | The manufacturer and sale of (1) various advanced lock, building metals parts and processed plastic goods (2) molding and tool machines and (3) kitchen and bathroom equipments (4) import and | Profit recognized by equity method  | NA   |



| Item   | Remarks | Original investment amount | Policies  | Reasons for gain or loss  | Action plan  |
|--|---------|----------------------------|---|---|--|
|  |         |                            | export business related to the aforementioned products          |   |  |
| Lucky International (Samoa) Ltd.                 |         | USD 22,400,000             | Investment holding company                                      | This was due mainly to the investment in the holding company of Tung Tong (Philippines) Metal Industry Co., Inc., the profit of which was recognized under the equity method. | NA   |
| Test-Rite Retail Co., Ltd.                       |         | 4,955,542                  | Sale of house decoration hardware and construction materials    | Profit recognized by equity method  | NA   |
| Test-Rite Home Service Co., Ltd.                 |         | 136,000                    | Interior design   | Loss recognized by equity method  | Review and improve operational performance and establishing tighter control on costs and expenses. |
| Hola Homefurnishings Co., Ltd.                   |         | 300                        | Sales of furniture, bedclothes, kitchen equipments and fixtures | No profits or losses were recognized for the current period under the equity method.  | NA   |
| Homy Homefurnishings Co., Ltd.                   |         | 300                        | Sales of furniture, bedclothes, kitchen equipments and fixtures | No profits or losses were recognized for the current period under the equity method.  | NA   |
| Freer Inc.                                       |         | 300                        | Sales of furniture, bedclothes, kitchen equipments and fixtures | No profits or losses were recognized for the current period under the equity method.  | NA   |
| Tony Construction Co., Ltd.                      |         | 230,000                    | Build and civil engineering                                     | Profit recognized by equity method  | NA   |
| Test Cin M&E Engineering Co., Ltd.               |         | 32,500                     | Mechanical and electronic engineering                           | Profit recognized by equity method  | NA   |
| Chung Cin Interior Design Construction Co., Ltd. |         | 12,000                     | Interior design   | Profit recognized by equity method  | NA   |

| Item \ Remarks              | Original investment amount | Policies                         | Reasons for gain or loss           | Action plan |
|-----------------------------|----------------------------|----------------------------------|------------------------------------|-------------|
| Viet Han Co., Ltd.          | USD 512,000                | Importation and exportation      | Profit recognized by equity method | NA          |
| Tony Investment Co., Ltd.   | 21,333                     | Investment in various industries | Profit recognized by equity method | NA          |
| Coalue Consultant Co., Ltd. | 7,360                      | Consultant of business operation | Loss recognized by equity method   | NA          |

## 7.5.2 Investment plan in one year

(Unit : NT\$ thousand)

| Item \ Remarks                | Investment amount | Policies                    | Investment reason   |
|-------------------------------|-------------------|-----------------------------|---|
| Test-Rite Retailing Co., Ltd. | 4,500             | Investment holding company  | With an optimistic outlook of China's retail market, we continued to invest in the retail operations of HOLA China to support our plan to open additional stores. |
| Test-Rite Trading Co., Ltd.   | 2,000             | Investment holding company  | Improve the capital structure of China Trading subsidiaries   |
| Test-Rite (UK) Co., Ltd.      | 500               | Importation and exportation | Improve the capital structure of TR UK  |

## 7.6 Analysis of Risk Management

### 7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

#### (1) Interest rate

Unit : NT\$ thousand

| Item / Year  | 2009    | 2010    |
|--|---------|---------|
| Ratio of liabilities to assets (%)                 | 56.87   | 56.52   |
| Interest Expense                                   | 72,895  | 69,024  |
| Income before Tax                                  | 165,771 | 616,718 |
| Ratio of Interest Expense to income before tax (%) | 43.97   | 11.19   |

The Company's interest expense on loans for the most recent two years, 2009 and 2010, was NT\$72,895,000 and NT\$69,024,000, respectively. Interest expense on loans has decreased over 2008, the main reason of which was the adjustments of the Company's loan structure and the lowering of borrowing costs of bank loans.

## (2) Foreign exchange rates

Unit : NT\$ thousand

| Item/Year  | 2009       | 2010       |
|--|------------|------------|
| Foreign exchange gain                                | 149,252    | 154,756    |
| Operating revenues                                   | 10,627,889 | 11,513,995 |
| Income before income tax                             | 165,771    | 616,718    |
| Foreign exchange gain / Operating revenues (%)       | 1.40       | 1.34       |
| Foreign exchange gain / Income before income tax (%) | 90.04      | 25.09      |

The Company is a professional trading company focusing on export trade. For the most recent fiscal year and in 2010, our export revenue accounted for approximately 90% of total revenue. We place orders with suppliers as soon as we receive purchase orders from customers, in accordance with the Company's order and sales process, and have adopted the two-way quotation system to shorten the entire ordering and supply process and are able to provide quotations that reflect the latest market exchange rates. In addition, the Company pays close attention to changes of the global economic landscape and the movements of exchange rates of major currencies. Our overseas subsidiaries also constantly provide us with local market news and conditions, thus enabling us to conduct dynamic adjustments to our hedging approaches and adjust the hedge ratio based on market trends and forecasts. As a result, fluctuations in exchange rates have muted impact on the Company's revenue. Apart from 2009 and 2010, where the ratio of exchange gain as a percentage of net PBIT increased significantly due to declining profits (a consequence of the global financial crisis), the ratio has generally been within a 20% range.

In addition, the Company assesses the market price risk of financial instruments for transaction purposes based on market prices, and establishes stop-loss points based on our risk tolerance level to settle outstanding positions. As for non-transactional financial instruments, since losses incurred from interest or exchange rate fluctuations generally offset the gain or loss of hedged items, market price risk is not significant.

## (3) Inflation

Affected by rising costs of energy and raw materials, countries around the world are faced with the threat of inflation. Although inflation has very limited effect on the Company due to the nature of our industry, we will continue to observe its impact closely.

### 7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

The Company is committed to the development of our primary business and does not engage in high-risk or highly-leveraged investment activities.

Any loans extended by the Company to third parties require approval by the Board and conducted in compliance with the Company's Procedure for

Extending Loans to Third Parties. The Company provides guarantees to affiliated enterprises that it owns in excess of 50% in equity and to other enterprises with which it conducts business. The total amount of guarantees and guarantee provided to a single enterprise are well within the allowable limits. We have provided all guarantees in compliance with the Company's Procedure for Providing Guarantees, and they have received prior approval from or are recognized retroactively by the Board. These guarantees are not expected to have a major impact on the Company's financial position.

In addition, with respect to derivatives trading, the Company is an export-oriented trading firm; as such, we engage in hedging measures such as forward foreign exchange and foreign currency option contracts to hedge the risk of exchange rate fluctuations. As option contracts expire, even if the counterparties elect to exercise their contractual obligations, the Company shall conduct settlements with the foreign currency claims that have reached the expiration dates. The market price risk from exchange rate fluctuations and demand for cash in the future have no significant impact on the Company and our counterparties are reputable banks with excellent credit ratings. As a result, the likelihood of credit risk is limited. In addition, the procedure for conducting derivatives trading is compliant with the Company's Procedure for Trading Derivative Instruments, and the amount traded is also within the authorized limits. We also provide monthly reports in accordance with regulations and therefore no significant impact on the Company's financial position is expected.

**7.6.3 Future Research & Development Projects and Corresponding Budget : None.**

**7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales**

As the Company exports mainly to the Americas and Europe, there have not been occurrences of major incidents regarding policy or legislative changes in foreign countries in recent years that have had a major impact on the Company's financial position or business operations.

The Company will continue to improve the access to and collection of business intelligence in our major overseas markets in order gain better control of our business operations and financial position. In addition, the Company's legal department is charged with the responsibility of monitoring major policy and legislative changes at home and abroad in order to be able to propose appropriate response measures for the Company in a timely manner.

**7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales :**

The Company has established the B&S Link global electronic trading platform, which employs information technology to streamline supply chain management operations. In order to strengthen the partnerships between Test Rite Group, suppliers and banks as well as to improve the overall value of the supply chain and to create a win-win scenario for all parties involved, Test Rite Group are collaborating with a number of banks and the subsidiary B&S Link to offer a comprehensive, convenient and preferential online financing services program to our suppliers, fully integrating information flow, business flow and cash flow. With this platform, we have pioneered a brand new cross-sector cooperative business model.

**7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures**

The Company has a reputable corporate image and there have not been any changes in our image that require enterprise crisis management.

**7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans : None.**

**7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans:** The Company is professional trading company and does not own any manufacturing plants, and therefore we do not have any plans to expand factories.

**7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration :** The Company does not have any issues associated with the consolidation of sales or purchasing operations.

**7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10% :** The shareholdings of the Company's directors and supervisors have been stable during the last few years, and there have been no major transfers or swaps of shares.

**7.6.11 Effects of, Risks Relating to and Response to Changes in Control over the Company :** The structure of our principal shareholders is solid, and we have a strong professional management team, so there is minimal risk that a change in control would cause damage to the Company.

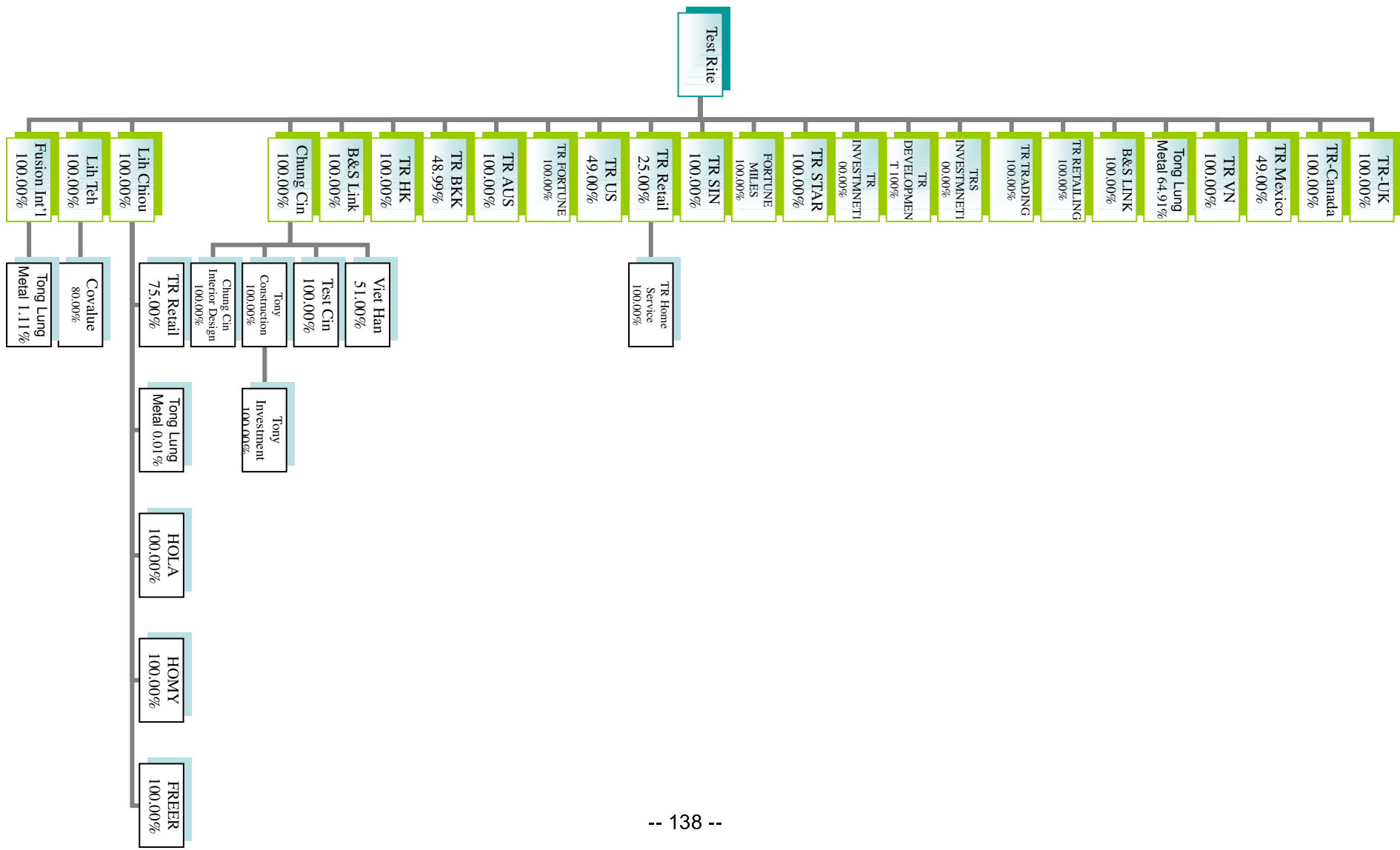
**7.6.12 Litigation or Non-litigation Matters : None.**

**7.6.13 Other Major Risks : None.**

VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Investment Holding Structure



**8.1.2 Affiliates' Profile :**

As of 12/31/2010

| Name   | Date of Incorporation | Address   | Paid-up capital  | Main business  |
|--|-----------------------|---|------------------|--|
| Test-Rite Retail Co., Ltd.                       | 3/1/1995              | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD1,000,000,000 | Sale of house decoration hardware and construction materials   |
| Test-Rite Home Service Co., Ltd.                 | 6/23/2004             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD136,000,000   | Interior design  |
| Hola Homefurnishings Co., Ltd.                   | 9/30/2010             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD300,000       | Sales of furniture   |
| Homy Homefurnishings Co., Ltd.                   | 10/1/2010             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD300,000       | Sales of furniture   |
| Freer Inc.                                       | 10/1/2010             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD300,000       | Sales of furniture   |
| Tong Lung Metal Industry Co., Ltd.               | 2/14/1977             | No.62, Zhongxiao 1st St., Chiayi City , Taiwan (R.O.C.)                           | NTD832,062,860   | The manufacture and sale of (1) various advanced lock, building metals parts and processed plastic goods (2) molding and tool machines and (3) kitchen and bathroom equipments (4) import and export business related to the aforementioned products |
| Chung Cin Enterprise Co., Ltd.                   | 5/23/1994             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD690,000,000   | Authorized builder to build dwelling, rental and sale of building  |
| Test Cin M&E Engineering Co., Ltd.               | 9/8/1997              | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD32,500,000    | Mechanical and electronic engineering  |
| Tony Construction Co., Ltd.                      | 4/22/1992             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD230,000,000   | Build and civil engineering  |
| Tony Investment Co., Ltd.                        | 1/18/2000             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD20,000,000    | Investment in various industries   |
| Chung Cin Interior Design Construction Co., Ltd. | 7/31/2003             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD12,000,000    | Interior design  |
| B&S Link Co., Ltd.                               | 2/5/2001              | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD50,000,000    | Providing information software and electronic information  |
| Covalue Consultant Co., Ltd.                     | 6/19/2003             | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C. | NTD5,000,000     | Consultant of business operation   |

|   |            |  |                  |                             |
|---|------------|--|------------------|-----------------------------|
| Lih Teh International Co., Ltd.         | 9/14/1994  | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C.          | NTD162,694,790   | Logistics services          |
| Lih Chiou Co., Ltd.                     | 9/14/1994  | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C.          | NTD4,194,140,000 | Investment holding company  |
| Fusion International Distribution, Inc. | 10/6/1994  | 8F, No. 270, Chung-Hsiao E. Rd., Sec. 4, Ta-an District, Taipei, Taiwan, R. O. C.          | NTD54,998,380    | Importation and exportation |
| Test-Rite Pte. Ltd.                     | 8/11/1989  | 2 ALEXANDRA ROAD#06-04A DELTA HOUSE, SINGAPORE 159919                                      | S\$3,520,000     | Importation and exportation |
| Test-Rite Int'l (Thailand) Ltd.         | 1/7/1989   | 121/52-53 13/FL,RS TOWER,RATCHADAPHISEK ROAD ,HUAY KWANG BANGKOK 10310,THAILAND            | B\$22,500,000    | Importation and exportation |
| Test-Rite Vietnam Co., Ltd.             | 3/23/2009  | SJ-07, Garden Plaza 1, Ton Dat Tien Street, Tan Phong Ward, District 7, HCMC               | US\$700,000      | Importation and exportation |
| Test-Rite Product (Hong Kong) Ltd.      | 12/30/1980 | 7F, NEW BRIGHT BUILDING,11 SHEUNG YUET ROAD, KOWLOON BAY,KOWLOON ,HONG KONG                | HK\$1,000,000    | Importation and exportation |
| Test-Rite Int'l (U.S.) Co., Ltd.        | 6/25/1991  | 1013 Centre Road Wilmington New Castle State of Delaware                                   | US\$12,878,800   | Importation and exportation |
| Test-Rite Canada Co., Ltd.              | 12/29/1999 | 2800 John street, Unit 20, Markham Ontario, L3R 0E2, Canada                                | CAD\$700,000     | Importation and exportation |
| Test Rite de Mexico, S.A. de C.V.       | 3/22/1996  | Jardines#5, Colonia Plaza de la Colina 54080, Tlalnepantla, Estado de Mexico               | PESO\$3,565,254  | Importation and exportation |
| Test-Rite Int'l (Australia) Pty Ltd.    | 4/12/1990  | Suite 3.01, 14 Lexington Dr, Bella Vista N.S.W., AUSTRALIA                                 | A\$1,000,000     | Importation and exportation |
| Test-Rite (UK) Co., Ltd.                | 7/27/2010  | Unit 18, Basepoint Business Centre, 1 Winnall Valley Road, Winchester, Hampshire, SO23 0LD | USD\$843,130     | Importation and exportation |
| TR DEVELOPMENT                          | 1/25/2002  | Poppenbutteler Bogen 44, 22393 Hamburg, Germany  | EURO\$9,670,000  | Investment holding company  |
| Test-Rite Fortune Co., Ltd.             | 4/11/2001  | OMAR HODGE BUILDNG,WICKHAUS CAY I,P.O.BOX 362,ROAD TOWN,TORTOLA,BRITISH,VIRGIN ISLANDS     | US\$186,086.11   | Investment holding company  |
| Test-Rite Star Co., Ltd.                | 4/17/2001  | OMAR HODGE BUILDNG,WICKHAUS CAY I,P.O.BOX 362,ROAD TOWN,TORTOLA,BRITISH,VIRGIN ISLANDS     | US\$1,089,000    | Investment holding company  |



|                        |            |  |                  |                                  |
|------------------------|------------|--|------------------|----------------------------------|
| TR INVESTMENT (B.V.I.) | 10/1/1997  | OMAR HODGE BUILDNG,WICKHAUS CAY I,P.O.BOX 362,ROAD TOWN,TORTOLA,BRITISH,VIRGIN ISLANDS | US\$500,000      | Investment in various industries |
| TR RETAILING           | 4/8/2003   | ONE CAPITAL PLACE, GEORGE TOWN, GRAND CAYMAN, CAYMAN ISLAND, BRITISH WEST INDIES       | US\$68,331,000   | Investment holding company       |
| TR TRADING             | 10/23/2002 | ONE CAPITAL PLACE P.O. BOX897, GT GRAND CAYMAN, CAYMAN, BRITISH WEST INDIES            | US\$32,126,495   | Investment holding company       |
| B&S Link               | 9/10/2001  | ONE CAPITAL PLACE P.O. BOX 1787, GT GRAND CAYMAN, CAYMAN ISLAND, BRITISH WEST INDIES   | US\$900,000      | Investment holding company       |
| FORTUNE MILES          | 9/21/2001  | TRUST NET CHAMBERS, LOTEMAU CENTER, P.O.BOX 1225, APIA,SAMOA                           | US\$30,000       | Investment holding company       |
| TRS INVESTMENT         | 1/17/2002  | TRUST NET CHAMBERS, LOTEMAU CENTER, P.O.BOX 217, APIA,SAMOA                            | US\$2,275,590.58 | Investment holding company       |

### 8.1.3 Affiliates' Operating Highlights

As of 12/31/2010  
(Unit: NT\$ thousands, except EPS (\$))

| Company  | Capital Stock | Assets     | Liabilities | Net Worth | Net Sales  | Operating Profit (Loss) | Net Income (Net of Tax) | EPS (Net of Tax) |
|--|---------------|------------|-------------|-----------|------------|-------------------------|-------------------------|------------------|
| Test Rite Int'l Co., Ltd.                        | 5,164,228     | 14,581,815 | 8,241,900   | 6,339,915 | 11,513,995 | 222,257                 | 486,818                 | 1.01             |
| Test-Rite Retail Co., Ltd.                       | 1,000,000     | 7,974,152  | 4,806,640   | 3,167,512 | 15,041,282 | 643,997                 | 477,296                 | 4.77             |
| Test-Rite Home Service Co., Ltd.                 | 136,000       | 199,878    | 82,445      | 117,433   | 274,219    | (74,094)                | (57,958)                | (7.54)           |
| Tong Lung Metal Industry Co., Ltd.               | 832,063       | 2,614,851  | 1,469,479   | 1,145,372 | 3,071,813  | 230,510                 | 200,867                 | 2.47             |
| Chung Cin Enterprise Co., Ltd.                   | 690,000       | 1,295,667  | 197,870     | 1,097,797 | 383,060    | 38,403                  | 145,929                 | 2.11             |
| Test Cin M&E Engineering Co., Ltd.               | 32,500        | 115,897    | 54,501      | 61,396    | 72,761     | 8,119                   | 7,889                   | 2.43             |
| Chung Cin Interior Design Construction Co., Ltd. | 12,000        | 76,827     | 37,725      | 39,102    | 142,109    | 26,652                  | 23,246                  | 19.37            |
| Tony Construction Co., Ltd.                      | 230,000       | 678,627    | 304,167     | 374,460   | 1,117,735  | 67,683                  | 82,792                  | 3.60             |
| Tony Investment Co., Ltd.                        | 20,000        | 24,082     | 62          | 24,020    | 0          | 0                       | 833                     | 0.42             |
| B&S Link Co., Ltd.                               | 50,000        | 54,409     | 21,760      | 32,649    | 119,362    | 5,279                   | 4,951                   | 0.99             |
| Coalue Consultant Co., Ltd.                      | 5,000         | 5,604      | 500         | 5,104     | 0          | (8)                     | (8)                     | -                |
| Lih Teh International Co., Ltd.                  | 162,695       | 223,447    | 21,738      | 201,709   | 197,395    | 36,444                  | 25,543                  | 1.57             |
| Lih Chiou Co., Ltd.                              | 4,194,140     | 4,572,502  | 10,238      | 4,562,264 | 0          | 0                       | 337,893                 | 0.81             |
| Fusion International Distribution, Inc.          | 54,998        | 72,730     | 3,980       | 68,750    | 55,811     | 3,608                   | 3,384                   | 0.62             |
| B&S Link Co., Ltd. (Cayman)                      | 31,023        | 46,605     | 0           | 46,605    | 0          | (96)                    | 7,974                   | -                |
| Test-Rite Fortune Co., Ltd.                      | 6,271         | 84         | 0           | 84        | 0          | 0                       | 953                     | -                |
| TRS Investment Co., Ltd.                         | 76,717        | 176,515    | 112,681     | 63,834    | 30,695     | 7,937                   | 1,479                   | -                |

| Company                                 | Capital Stock | Assets    | Liabilities | Net Worth | Net Sales | Operating Profit (Loss) | Net Income (Net of Tax) | EPS (Net of Tax) |
|---|---------------|-----------|-------------|-----------|-----------|-------------------------|-------------------------|------------------|
| Fortune Miles Co., Ltd.                 | 941           | 1,105     | 0           | 1,105     | 0         | (33)                    | (33)                    | -                |
| Test-Rite Investment (B.V.I.) Co., Ltd. | 17,387        | 21,907    | 0           | 21,907    | 0         | (61)                    | (90)                    | -                |
| Test-Rite Retailing Co., Ltd.           | 2,207,297     | 1,865,873 | 1,487,765   | 378,108   | 2,985,567 | (261,431)               | (233,525)               | -                |
| Test-Rite Trading Co., Ltd.             | 1,044,918     | 615,104   | 487,944     | 127,160   | 996,441   | (184,766)               | (200,181)               | -                |
| Test-Rite Product (Hong Kong) Ltd.      | 3,795         | 22,987    | 7,292       | 15,695    | 36,931    | 501                     | 410                     | -                |
| Test-Rite Pte. Ltd.                     | 66,625        | 70,612    | 7,363       | 63,249    | 168,621   | 1,349                   | 675                     | -                |
| Test-Rite Int'l (Thailand) Ltd.         | 17,226        | 24,556    | 20,929      | 3,627     | 30,773    | (6,657)                 | (3,805)                 | -                |
| Test-Rite Int'l (Australia) Pty Ltd.    | 26,763        | 19,560    | 19,567      | (7)       | 194       | (36,954)                | (9,054)                 | -                |
| Test-Rite Development Co., Ltd.         | 474,414       | 222,945   | 172,596     | 50,349    | 427,618   | 14,376                  | 21,554                  | -                |
| Test-Rite Star Co., Ltd.                | 38,148        | 11,760    | 0           | 11,760    | 0         | (66)                    | (66)                    | -                |
| Test-Rite (UK) Co., Ltd.                | 42,010        | 98,849    | 67,477      | 31,372    | 6,322     | (7,192)                 | (7,192)                 | -                |
| Test-Rite Int'l (U.S.) Co., Ltd.        | 375,275       | 1,112,291 | 1,977,987   | (865,696) | 3,592,468 | 124,189                 | 108,693                 | -                |
| Test-Rite Vietnam Co., Ltd.             | 22,162        | 9,302     | 357         | 8,945     | 1,917     | (8,364)                 | (8,317)                 | -                |
| Test-Rite Canada Co., Ltd.              | 21,322        | 6,031     | 789         | 5,242     | 10,987    | (8,826)                 | (8,665)                 | -                |

#### **8.1.4. Consolidated financial statements of affiliated enterprises**

##### **Statement of Declaration**

For fiscal year 2010 (January 1 to December 31, 2010), the affiliated enterprises that should be incorporated into the Company's consolidated financial statements pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, and those that should be incorporated similarly in accordance with Statement of Financial Accounting Standards No. 7 are in fact the same companies, and the relevant information required to be disclosed in the consolidated financial statements of affiliated enterprises have already been disclosed in the aforementioned consolidated financial statements of parent and subsidiaries. Therefore there is no need to prepare consolidated financial statements separately for the Company's affiliated enterprises.  
The above is hereby declared.

Test Rite International Co., Ltd.  
Chairman : Judy Lee  
April 12, 2011

**8.2 Private Placement Securities in the Most Recent Years:**None.

**8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years:**None.