



禾伸堂企業股份有限公司
Holy Stone Enterprise Co., Ltd.

TWSE: 3026

Annual Report 2008

Printed on May 15, 2009

Taiwan Stock Exchange Market Observation Post System: <http://mops.tse.com.tw>

Information Post System: <http://sii.tse.com.tw>

1. Company Spokesperson

Name: Steven Huang

Title: Manager

Tel: 886-2-2627-0383

E-mail: stevenhuang@holystone.com.tw

Deputy Spokesperson

Name: Sherry Wu

Title: Vice President

Tel: 886-2-2627-0383

E-mail: sherry@holystone.com.tw

2. Headquarters and Facilities

Headquarters:

Address: 1F., No.62, Sec. 2, Huanshan Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.)

Tel: 886-2-2627-0383

Facilities:

Address: No.56, No.61, No. 61-1, Lane 90, Gong 5th Rd., Longtan Shiang, Taoyuan County
325, Taiwan (R.O.C.)

Tel: 886-3-499-5288

3. Institution Offering Stock Transfer Service

Company: ChinaTrust Commercial Bank, Transfer Agency Department

Address: 5F., No.83, Sec. 1, Chongqing S. Rd., , Taipei City 100, Taiwan (R.O.C.)

Web Site: <http://www.chinatrust.com.tw>

Tel: 886-2-2181-1911

4. The Auditing Public Accountants of Certifying Financial Statements During Recent Years

Auditor: Ching-Sung Wang and Heng-Sheng Lin

Company: KPMG

Address: 68F., No.7, Sec. 5, Xinyi Rd., Taipei City 110, Taiwan (R.O.C.) (Taipei 101)

Web Site: <http://www.kpmg.com.tw>

Tel: 886-2-8101-6666

5. Foreign Securities Trade & Exchange

No foreign securities issued by the Company.

6. Company Web Site

<http://www.holystone.com.tw>

Catalog

1.	Letters to Shareholder	1
1.1.	2008 Operating Report	1
2.	An Introduction to Holy Stone	2
2.1.	Date of Foundation	2
2.2.	Milestones:	2
3.	Corporate Governance	3
3.1.	An Organized System	3
3.2.	Information of Directors, Supervisors, President, Vice Presidents, Assistant Managers, Managers of Departments and Subsidiaries	4
3.3.	Corporate Governance Status	15
3.4.	Information Regarding Holy Stone's Independent Auditor	25
3.5.	Independent Auditor Replacement	25
3.6.	Holy Stone's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations, who have held any positions within Holy Stone's independent audit firm or its affiliates during 2008, should disclose his name, title, and term.	25
3.7.	Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholdings or More	26
3.8.	Information on Our 10 Largest Shareholders Who are Related Parties to Each Other	26
3.9.	Shares of the Same Transferred Investment Industry Held by Corporate, Directors of Corporate, Supervisors, Managers, and the Industries which Are Controlled Directly and Indirectly by Corporate, along with Long-term Investments Ownership	27
4.	The Status of Funds Raising	28
4.1.	Capital and Shares	28
4.2.	Issuance of Corporate Bonds	34
4.3.	Preferred Shares	34
4.4.	Issuance of American Depositary Shares	34
4.5.	Status of Employee Stock Option Plan	35
4.6.	Mergers and Acquisitions	36
4.7.	Status of New Share Issuance in Connection with Acquisitions	36
4.8.	Financing Plans and Implementation	36
5.	Operational Highlights	37
5.1.	Business Activities	37
5.2.	Market and Sales Overviews	41

5.3.	Employee Analysis	46
5.4.	Environmental Awareness	47
5.5.	Labor and Management Relationship.....	48
5.6.	Major Contracts	48
6.	Financial Highlights	49
6.1.	Condensed Balance Sheet and Condensed Income Statement	49
6.2.	Financial Analysis	51
6.3.	Supervisors' Report	53
6.4.	Financial Report of 2008	54
6.5.	Consolidated Financial Report of 2008	54
6.6.	The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2008 and as of the date of this Annual Report.	54
7.	Financial Status and Operating Results Analysis and Risk Events	55
7.1.	Financial Status	55
7.2.	Operating Results	56
7.3.	Cash Flow.....	57
7.4.	Major Capital Expenditure	57
7.5.	Investments Exceeding 5% of Company's Paid-in Capital in 2008	58
7.6.	Risk Management.....	58
7.7.	Other vital items.	60
8.	Special Notes.....	61
8.1.	Affiliates	61
8.2.	Private Placement Securities in 2008 and as of the Date of this Annual Report	63
8.3.	Status of Holy Stone Common Shares Acquired, Disposed of, and Held by Subsidiaries in 2008 and as of the Date of this Annual Report.....	63
8.4.	Other Necessary Supplement	63
8.5.	Any Events in 2008 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan.....	63

1. Letters to Shareholder

1.1. 2008 Operating Report

Dear Shareholders,

In 2008, the American financial tsunami hit, creating a world wide economic slump. Although the weak economy hindered Holy Stone's growing trend, the Company still held its profitability due to its sound business structure. Consequently, I deeply appreciate the efforts made by our operating team and all employees.

Revenue for 2008 totaled NT\$12.7 billion, a nearly 3 percent decrease compared with NT\$13.1 billion in 2007. Net income was NT\$674.5 million, a nearly 43 percent decrease compared with net income of NT\$1,189.01 million earned in 2007. Earnings per share was NT\$2.41.

In response to the overall change in the business operating environment, we have adopted the following policy:

1. Controlling every financial index in operating activities to achieve cash flow assurance.
2. Reducing cost positively through internal reorganization and strengthened expense control.
3. Market share expansion. Holy Stone's main product line includes a variety of electronic components and systems & modules, which are renowned for product quality and service. Looking ahead to 2009, we aim to increase our market share by expanding and deepening the cooperative relationship with our strategic partners and emphasizing the development of customer-oriented products, niche products, and growth products.

Since technology is our core competence, outstanding employees are our growth engines, and green industry is the trend of the future, Holy Stone will focus on product development and technical advances in emerging industries. Furthermore, we will also implement a plan to cultivate well-performing employees.

Last but not least, exercising "Corporate Social Responsibility, CSR" is the mission of Holy Stone. In 2008, in Taiwan, we received CSR-related awards from both *CommonWealth Magazine* and *Global Views Magazine*. We appreciate the recognition and encouragement from the evaluation committees. As a member of global value chain, Holy Stone will continue our involvement in Corporate Social Responsibility.

Thanks to every director, supervisor, shareholder, customer, and supplier for your long-term support. Although the financial tsunami has had a great impact, we still believe that Holy Stone will continue to make profits through the efforts of our operating team and employees. All of us at Holy Stone will continue to commit ourselves to enabling our customers' success and creating higher shareholders' value throughout 2009 and beyond.

Chairman: Jing-Rong Tang President: Jing-Rong Tang Accountant Manager: Shu-Ying Chang

2. An Introduction to Holy Stone

2.1. **Date of Foundation:** June 1, 1981.

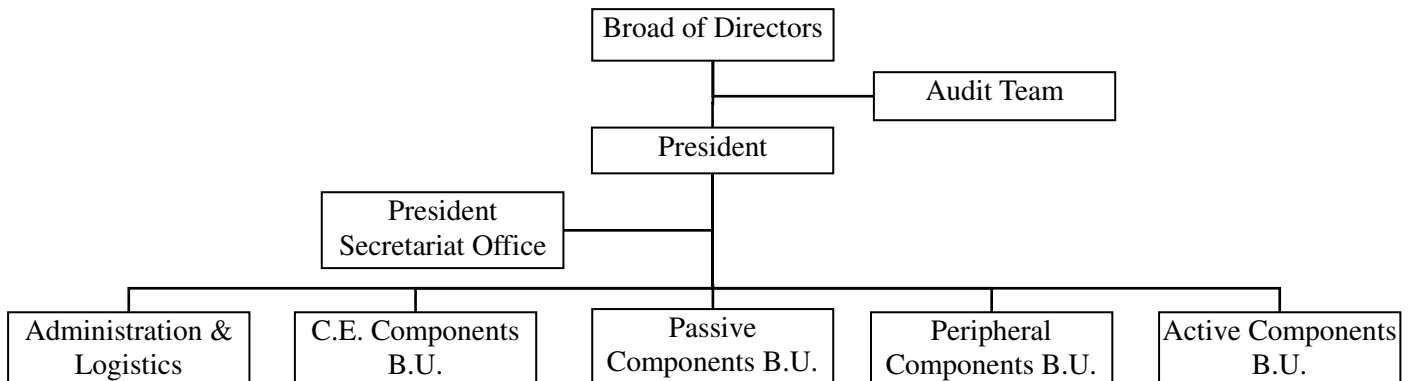
2.2. **Milestones:**

Jun.1981	Holy Stone was founded in Taipei, Taiwan, with capital of NT\$2 millions.
Feb.1984	Holy Stone pioneered pension management regulation, annual health examination, annual overseas trip, and so on for employees in the trade industry.
Aug. 1988	Holy Stone acquired dealership of many famous electronic component manufacturers in West Germany, USA, UK, Singapore, and Japan.
Jul. 1989	Holy Stone implemented on Internet system in the office.
Feb. 1993	Holy Stone established the semiconductor business department and positively invested in R&D and sales on multimedia-related products
Mar. 1995	Holy Stone found GSI Technology, Inc. in U.S.
Oct. 1997	Holy Stone established a materials R&D department and invested in manufacturing, establishing a new milestone.
Apr. 1998	Holy Stone was approved by the “Securities & Future Institute” to public offering.
Apr. 1999	Holy Stone’s MLCC factory was established in Longtan(Taiwan).
Jan. 2000	Holy Stone’s stock was officially listed in the OTC market.
Aug. 2001	Holy Stone’s second MLCC factory was established.
Jun. 2002	Holy Stone issued the first issue of domestically unsecured convertible corporate bond, and the lump sum was NT\$1 billion.
Aug.2002	Holy Stone changed to list in TWSE.
Apr. 2004	Holy Stone issued the second issue of domestically unsecured convertible corporate bond, and the lump sum was NT\$1 billion.
Jun. 2004	INPAQ, the affiliate of Holy Stone, was officially listed in the OTC market.
Jul. 2004	Holy Stone merged with Infortech Co., Ltd, and established the consumer components department.
Dec. 2004	Annual sales revenue surpassed NT\$10 billions.
May. 2005	Holy Stone bought a new office in Wenhua, Taipei.
Aug. 2005	Holy Stone’s third MLCC factory was established.
Dec. 2005	Diostech Co., Ltd, the affiliate of Holy Stone, launched IPO in KOSDAQ.
Oct. 2006	Holy Stone bought a new office in Shanghai, China.
Mar. 2007	GSI Technology, Inc., the affiliate of Holy Stone, launched IPO in NASDAQ.
Nov. 2007	Holy Stone’s Chinese operating department was headquartered in Shanghai.
Apr. 2008	EETI, the affiliate of Holy Stone, was officially listed in the OTC market.

3. Corporate Governance

3.1. An Organized System

3.1.1. Organization Structure:



3.1.2. Major Corporate Functions:

Audit Team:

- Internal audit regulations establishment, revise, and examination.
- Internal control regulations discussion, audit, and revise.
- Overseas subsidiary regulations estimate, formulation, and examination.

President Secretariat Office:

- Corporate operation development, counsel, and management.

Active Components B.U.:

- Market information collection and analysis, products promotion project and execution, and selling channels expansion and management to achieve corporate operating purpose.

Peripheral Components B.U.:

- Market information collection and analysis, products promotion project and execution, and selling channels expansion and management to achieve corporate operating purpose.

Passive Components B.U.:

- Market information collection and analysis, products promotion project and execution, and selling channels expansion and management to achieve corporate operating purpose.

C.E. Components B.U.:

- Market information collection and analysis, products promotion project and execution, and selling channels expansion and management to achieve corporate operating purpose.

Administration & Logistics:

- Administrative Management Department: human resources project, personnel management, welfare and affairs management, security protection, and so on.
- Finance and Accounting Management Department: financing formulation, funds management and deployment, credit checks management, accounts settlement, and accounting operations.
- Information Technology Department: systems development, and computer software and hardware installation and protection.

3.2. Information of Directors, Supervisors, President, Vice Presidents, Assistant Managers, Managers of Departments and Subsidiaries

3.2.1 Information of Directors and Supervisors

Title	Name		Date Elected	Term	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding	
					Shares	%	Shares	%	Shares	%
Chairman & President	Jing-Rong Tang		06/09/2006	3 yrs	7,581,638	3.42	8,812,908	3.14	1,677,924	0.60
Director & Vice Executive President	Fang-Ming Lo	Representative of LIN TAN INVESTMENT CO., LTD.	06/09/2006	3 yrs	13,097,150	5.91	14,419,239	5.14	-	-
Director	Chun-Ping Ma									
Director & Vice Executive President	Shih-Yun Sheng		06/09/2006	3 yrs	3,413,979	1.54	4,094,407	1.46	2,412,018	0.86
Director & Vice President	Shao-Kuo Huang		06/09/2006	3 yrs	2,583,196	1.17	2,550,277	0.91	2,812,312	1.00
Independent Director	Chu-Yang Chien		06/09/2006	3 yrs	-	-	-	-	5,000	-
Independent Director	Nai-Hua Wu		06/09/2006	3 yrs	-	-	-	-	-	-
Supervisor	Chung-Yi Yang		06/09/2006	3 yrs	591,429	0.27	651,129	0.23	-	-
Supervisor	Tang-Ming Wu		06/09/2006	3 yrs	769,690	0.35	847,385	0.30	-	-
Independent Supervisor	Ken-Yi Cheng		06/09/2006	3 yrs	-	-	-	-	-	-

Note 1: Mainly publicly traded corporates and investees in China.

Note 2: Chun-Ping Ma has been designated to the Company's subsidiary. It is in the process of registration of alteration.

Major shareholder of juridical person shareholder

As of 04/18/2009

Director that is a Juridical Person Shareholder	Major shareholders
LIN TAN INVESTMENT CO., LTD.	KAI SHEN INVESTMENT CO., LTD. CHENG YA INVESTMENT CO., LTD. FANG HAO INVESTMENT CO., LTD. PEN CHUEH INVESTMENT CO., LTD.

Major shareholder of juridical person as major shareholders

As of 04/18/2009

Director that is a Juridical Person Shareholder	Major shareholders
KAI SHEN INVESTMENT CO., LTD.	Shih-Yun Sheng
CHENG YA INVESTMENT CO., LTD.	Yueh-Hua Lin
FANG HAO INVESTMENT CO., LTD.	Fang-Ming Lo
PEN CHUEH INVESTMENT CO., LTD.	Mei-Yu Lin

Unit: Shares As of 04/18/2009

Shareholding by Nominee Arrangement		Selected Education, Past Positions	Selected Current Position at Other Companies (Note 1)	Managers, Directors, and Supervisors who are spouse or within second-degree relative of Consanguinity to Each Other		
Shares	%			Title	Name	Relation
-	-	Bachelor, Electronic Engineering, Tatung University Manager, PIST	Representative of incorporated directors, EEIT	-	-	-
-	-	Bachelor, Electronic Engineering, NTUT Manager, DYNAMAL INTERNATIONAL	-	-	-	-
-	-	Bachelor, Textile Technology, St. John's University	Chairman, OHGA Electronics Co., Ltd. Representative of incorporated directors, HE JIA ELECTRONIC (DONG GUAN) LTD. (Note 2)	-	-	-
-	-	Bachelor, Physics, Tamkang University	Representative of incorporated directors, Infotech (China) Co., Ltd and Holy Stone international trading (Shanghai) Co., Ltd.	-	-	-
-	-	Bachelor, Business Management, Tatung University	Representative of incorporated directors, Infotech International Trading (Shanghai) Ltd.	-	-	-
-	-	Ph.D., BA (Accounting), NTU Chairman, Accounting, CYCU	Vice Professor, Accounting, NYUST	-	-	-
-	-	Bachelor, Chemical Engineering, NCKU Vice General Manager, Uping International Co., LTD.	General Manager, Instant-Dict Co., Ltd	-	-	-
-	-	Bachelor, Business Administration, NTIT	Chairman, LIN TAN INVESTMENT CO., LTD.	-	-	-
-	-	Bachelor, Accounting, FJCU	Accountant, HONESTY CPA FIRM	-	-	-
-	-	Bachelor, Accounting, FCU Assistant Manager, Taiwan International Securities Group Vice General Manager, Hyield Venture Capital	Director, BEST FRIEND MANAGEMENT CONSULTANTS Director, WT Electronics Co. Incorporated Supervisor, Solytech Enterprise Co. Incorporated Director, Leader Electronic Co. Supervisor, Foxlink Image Technology Co., Ltd. Independent Supervisor, Prolific Technology Co.	-	-	-

Information of directors and supervisors

Name/Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience		
	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 Specialists 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 Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company
Jing-Rong Tang	–	–	✓
Representative of LinTan Investments Co., Ltd.:Fang-Ming Lo	–	–	✓
Representative of LinTan Investments Co., Ltd.: Chun-Ping Ma	–	–	✓
Shih-Yun Sheng	–	–	✓
Shao-Kuo Huang	–	–	✓
Chu-Yang Chien	–	–	✓
Nai-Hua Wu	–	–	✓
Chung-Yi Yang	–	–	✓
Tang-Ming Wu	–	–	✓
Ken-Yi Cheng	–	–	✓

Note 1: Directors or Supervisors, during the two years before being elected or during the term of office, have been or be any of the following, please tick the appropriate corresponding boxes:

- (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 shares, 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; and
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Note 2: The number of other corporations that Chu-Yang Chien, Nai-Wua Wu, and Ken-Yi Cheng serve independent directors and independent supervisors concurrently while they individually serve as Holy Stone's independent directors and independent supervisors.

As of 04/30/2009

Criteria (Note 1)										Note 2
1	2	3	4	5	6	7	8	9	10	
-	-	-	✓	✓	✓	✓	✓	✓	✓	-
-	-	-	✓	✓	✓	✓	✓	✓	✓	-
-	-	✓	✓	✓	✓	✓	✓	✓	✓	-
-	-	-	✓	✓	✓	✓	✓	✓	✓	-
-	-	-	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	-	✓	✓	-	✓	✓	✓	✓	✓	-
✓	-	✓	✓	✓	✓	-	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

3.2.2 Information of President, Vice President, Assistant Managers, and Managers of Departments and Subsidiaries

Title (Note 1)	Name	Date Elected	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
Chairman & President	Jing-Rong Tang	08/01/1984	8,812,908	3.14	1,677,924	0.60	-	-
Director & Vice President	Fang-Ming Lo	01/01/1998	5,810,527	2.07	2,352,983	0.84	-	-
Director & Vice Executive President	Shih-Yun Sheng	04/01/2002	4,094,407	1.46	2,412,018	0.86	-	-
Vice President of Management Team	Yu-Min Wu	02/13/1984	941,578	0.34	16,108	0.01	-	-
Director & Vice President	Shao-Kuo Huang	07/01/2005	2,550,277	0.91	2,812,312	1.00	-	-
Vice President	Sheng-Yao Lu	07/01/2005	261,017	0.09	142,067	0.05	-	-
Vice President	I-Ta Lee	01/01/2006	165,522	0.06	-	-	-	-
Vice President	Hui-Bang Yeh	12/01/2007	208,585	0.07	-	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang	10/06/1997	305,077	0.11	-	-	-	-

Note 1: Information should be disclosed no matter titles with the position of general manager, vice general managers, or assistant managers.

Note 2: Past positions and appointments which were related to current positions should be stated in detail, such as, accounting firms' or affiliates' positions.

Note 3: Mainly publicly traded corporates and investees in China.

Note 4: It is in the process of registration of alteration.

Unit: Shares as of 04/18/2009

Selected Education, Past Positions (Note 2)	Selected Current Position at Other Companies (Note 3)	Managers, Directors, and Supervisors who are spouse or within second-degree relative of Consanguinity to Each Other		
		Title	Name	Relation
Bachelor, Electronic Engineering, Tatung University Manager, PIST	Representative of incorporated directors, EEIT	-	-	-
Bachelor, Electronic Engineering, NTUT Manager, DYNAMAL INTERNATIONAL	-	-	-	-
Bachelor, Physics, Tamkang University	Representative of incorporated directors, Infortech (China) Co., Ltd. and Holy Stone international trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, Accounting, Providence University Accountant, KFIC	Supervisor, EEIT Representative of incorporated directors, Infortech (China) Co., Ltd. and Holy Stone international trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, Business Management, Tatung University. General Manager, Infortech Co., Ltd	Representative of incorporated directors, Infortech International Trading (Shanghai) Ltd.	-	-	-
Bachelor, Information Engineering and Computer Science, FCU	-	-	-	-
Bachelor, De Francais, PCCU	-	-	-	-
Master, Resources Engineering, NCKU	Representative of incorporated directors, HE JIA ELECTRONIC (DONG GUAN) LTD. (Note 4)	-	-	-
Master, Management Science & Decision Making, TKU	Supervisor, Infortech (China) Co., Ltd.	-	-	-

3.2.3 Remuneration Paid to Directors(Including Independent Directors), Supervisors, President, Vice Presidents

Remuneration Paid to Directors(Including Independent Directors)

Title	Name	Remuneration								Total Remuneration (A+B+C+D) as a % of Net Income (Note 3)	
		Base Compensation (A)		Retirement Allowance (B) (Note 1)		Profit Sharing (C) (Note 2)		Allowances (D)		From Holy Stone	From All Consolidated Entities
		From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities		
Chairman	Jing-Rong Tang (a)										
Director	Shih-Yun Sheng (b)										
Director	Representative of LIN TAN INVESTMENT CO., LTD.: Fang-Ming Lo (c)										
Director	Representative of LIN TAN INVESTMENT CO., LTD.: Chun-Ping Ma (d)	-	-	-	-	11,627	11,627	240	240	1.76	1.82
Director	Shao-Kuo Huang (e)										
Independent Director	Chu-Yang Chien (f)										
Independent Director	Nai-Hua Wu (g)										

Note 1: There was no retirement allowance paid during 2008.

Note 2: The proposed profit sharing of 2008 will be effected upon the approval of directors at the Board before the Annual Shareholder Meeting in 2009.

Note 3: Net Income: 2008 net income.

Note 4: The Board adopted a proposal for 2008 employee profit sharing distribution of NT\$50,500 thousand. As of this Annual Report printed date, the employee profit sharing name list has not been decided. (To get the proposed amount, please refer to P.14 of this Annual Report.)

Note 5: Excluding employee profit sharing amount.

Remuneration Paid to Directors

Remuneration Paid to Directors of Holy Stone	Directors' Name			
	Total Remuneration (A+B+C+D)		Total Compensation (A+B+C+D+E+F+G)	
	From Holy Stone	From All Transferred Investment Co.	From Holy Stone	From All Transferred Investment Co.
Under NT\$2,000,000	b、c、d、e、f、g	b、c、d、e、f、g	d、f、g	f、g
NT\$2,000,000~NT\$5,000,000	a	a	b、c、e	c、d、e
NT\$5,000,000~NT\$10,000,000	-	-	a	a、b
NT\$10,000,000~NT\$15,000,000	-	-	-	-
NT\$15,000,000~NT\$30,000,000	-	-	-	-
NT\$30,000,000~NT\$50,000,000	-	-	-	-
NT\$50,000,000~NT\$100,000,000	-	-	-	-
Over NT\$100,000,000	-	-	-	-
Total	7	7	7	7

Unit: Shares/ NT\$ thousands As of 12/31/2008

Compensation Earned as Employee of Holy Stone or of Holy Stone's Consolidated Entities										Total Remuneration (A+B+C+D+E+F+G) as a % of Net Income (Note 5)		Compensation Paid to Directors from Nonconsolidated Affiliates
Base Compensation, Bonuses, and Allowances (E)		Retirement Allowance (F)		Employee Profit Sharing (G) (Note 4)				Exercisable Employee Stock Options (H)		From Holy Stone	From All Consolidated Entities	
From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone		From All Consolidated Entities		From Holy Stone	From All Consolidated Entities			
				Cash	Stock	Cash	Stock					
11,251	14,515	-	-	N.A	N.A	N.A	N.A	2,350	2,350	3.43	4.04	YES

Remuneration Paid to Supervisors Unit: NT\$ thousands As of 12/31/2008

Title	Name	Remuneration Paid to Supervisors								Total Remuneration (A+B+C+D) as a % of Net Income (Note 3)		Compensation Paid to Directors from Nonconsolidated Affiliates
		Base Compensation (A)		Retirement Allowance (B) (Note 1)		Profit Sharing (C) (Note 2)		Allowances (D)		From Holy Stone	From All Consolidated Entities	
		From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities			
Supervisor	Tang-Ming Wu (a)											
Supervisor	Chung-Yi Yang (b)	-	-	-	-	3,473	3,473	360	360	0.57	0.59	None
Independent Supervisor	Ken-Yi Cheng (c)											

Note 1: There was no retirement allowance paid during 2008.

Note 2: The proposed profit sharing of 2008 will be effected upon the approval of directors at the Board before the Shareholder Meeting in 2009.

Note 3: Net Income: 2008 net income

Remuneration Paid to Supervisors

Remuneration Paid to Supervisors of Holy Stone	Supervisors' Name	
	Total Remuneration (A+B+C+D)	
	From Holy Stone	From All Consolidated Entities
Under NT\$2,000,000	a 、 b 、 c	a 、 b 、 c
NT\$2,000,000~NT\$5,000,000	-	-
NT\$5,000,000~NT\$10,000,000	-	-
NT\$10,000,000~NT\$15,000,000	-	-
NT\$15,000,000~NT\$30,000,000	-	-
NT\$30,000,000~NT\$50,000,000	-	-
NT\$50,000,000~NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
Total	3	3

Compensation Paid to President and Vice Presidents

Unit: Shares/ NT\$ thousands As of 12/31/2008

Title	Name	Salary(A)		Retirement Allowance (B) (Note 1)		Bonuses and Allowances (C)		Employee Profit Sharing (D) (Note 2)				Total Compensation (A+B+C+D) as a % of Net Income (%) (Note 3)		Exercisable Employee Stock Options		Compensation Received from Nonconsolidated Affiliates	
		From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone		From All Consolidated Entities		From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities		
								Cash	Stock	Cash	Stock						
President	Jing-Rong Tang (a)																
Vice Executive President	Fang-Ming Lo (b)																
Vice Executive President	Shih-Yun Sheng (c)	13,249	16,513	-	-	-	-	N.A	N.A	N.A	N.A	1.96	2.53	2,790	2,790	YES	
Vice President	Yu-Min Wu (d)																
Vice President	Chun-Ping Ma (e)																
Vice President	Shao-Kuo Huang (f)																

Note 1: There was no retirement allowance during 2008.

Note 2: The Board adopted a proposal for 2008 employee profit sharing distribution of NT\$50,500 thousand. As of this Annual Report printed date, the employee profit sharing name list has not been decided. (To get the proposed amount, please refer to P.14 of this Annual Report.)

Note 3: Excluding employee profit sharing amount.

Compensation

Compensation Paid to President and Vice Presidents of Holy Stone	President's and Vice Presidents' Name	
	From Holy Stone	From All Transferred Investment Co.
Under NT\$2,000,000	c、d、e	e
NT\$2,000,000~NT\$5,000,000	a、b、f	a、b、c、d、f
NT\$5,000,000~NT\$10,000,000	-	-
NT\$10,000,000~NT\$15,000,000	-	-
NT\$15,000,000~NT\$30,000,000	-	-
NT\$30,000,000~NT\$50,000,000	-	-
NT\$50,000,000~NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
Total	6	6

Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands As of 12/31/2008

	Title	Name	Stock	Cash	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of Net Income
M a n a g e r s	President	Jing-Rong Tang	4,929	8,560	13,489	2.00
	Vice Executive President	Fang-Ming Lo				
	Vice Executive President	Shih-Yun Sheng				
	Vice President	Yu-Min Wu				
	Vice President	Chun-Ping Ma				
	Vice President	Shao-Kuo Huang				
	Assistant Manager	Sheng-Yao Lu				
	Assistant Manager	I-Ta Lee				
	Assistant Manager	Hui-Bang Yeh				
Manager of Finance and Accounting Department	Shu-Ying Chang					

Note: As of this Annual Report printed date, the employee profit sharing list has not been decided. The aforementioned figures are preliminary and calculated by the same percentage of actual distribution of 2008 employee profit sharing.

3.2.4 Analysis of the Percentage of Total Compensation Paid to Holy Stone's Directors, Supervisors, President, and Vice President to Net Income from Holy Stone and All Consolidated Entities in These Two Years

3.2.4.1. Analysis of the percentage of total compensation to net income

Title \ Item	The Percentage of Total Compensation to Net Income (%)			
	2008		2007	
	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities
Directors	3.43 (Note 1)	4.04 (Note 1)	7.53	6.23
Supervisors	0.57	0.59	0.55	0.44
President & Vice Presidents	1.96 (Note 1)	2.53 (Note 1)	6.02 (Note 2)	4.86 (Note 2)

Note 1: As of this Annual Report printed date, the employee profit sharing list has not been decided; therefore, the percentage of total compensation to net income excludes the amount of employee profit sharing.

Note 2: Employee profit sharing in stock of total compensation of 2007 was calculated by the average closing price during December 2007.

3.2.4.2. Correlation between compensation paid process and administrative performance

Holy Stone's compensation paid is processed by its personnel rules, and its profit sharing is decided by the board based on corporate's operating condition, annual earning distribution, and profit distribution numbers in memorandum, and through the admission of the shareholder meeting.

3.3 Corporate Governance Status

3.3.1 The state of Operations of the Board of Directors

The State of Operations of the Board of Directors

The chairman convened 7 (A) board of directors meetings in 2008. The directors' attendance status is as follows:

Title	Name (Note 1)	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%) 【B/A】 (Note 2)	Remarks
Chairman	Jing-Rong Tang	7	-	100.00	-
Director	Representative of LIN TAN INVESTMENT CO., LTD. : Fang-Ming Lo	6	1	85.71	-
Director	Representative of LIN TAN INVESTMENT CO., LTD. : Chun-Ping Ma	6	1	85.71	-
Director	Shih-Yun Sheng	6	1	85.71	-
Director	Shao-Kuo Huang	6	1	85.71	-
Independent Director	Chu-Yang Chien	7	-	100.00	-
Independent Director	Nai-Hua Wu	7	-	100.00	-
Supervisor	Tang-Ming Wu	6	-	85.71	-
Supervisor	Chung-Yi Yang	6	-	85.71	-
Independent Supervisor	Ken-Yi Cheng	5	-	71.43	-

Annotations:

1. There were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion that should state date, term, proposal contents, all opinions of independent directors and handling of those opinions from corporate.
2. There were no recusals of directors due to conflicts of interests that should state directors' name, proposal contents, reasons to avoid interests, and conditions of participating in votes.
3. The communication status of independent directors, internal audit manager, and CPA:
 - (1) There was no dissenting opinion of independent directors on the audit report, presented by the audit manager in the next month after finishing auditing.
 - (2) Audit manager attends the Board as an observer and presents audit reports periodically. There was no dissenting opinion of independent directors on those audit reports.
 - (3) Communicating with CPA every half year about financial statements and latest financial and tax information.

Note 1: Titles of juridical shareholders and their representatives' name should be disclosed if directors and supervisors are juridical people.

Note 2: (1) Left date should be stated on the notes and attendance rate is calculated by the number of meetings on-the-job and attendance if there is any director or supervisor left office before the end of year.

(2) New and old directors and supervisors should be filled out with the old, new, or renewal appointment stated on the notes. Attendance rate is calculated by the number of meetings on-the-job and attendance if there is any director or supervisor left office before the end of year.

3.3.2 The State of Operations of the Audit Committee or the State of Participation in Board Meetings by the Supervisors

3.9.1.1. The state of operations of the audit committee: Holy Stone has no Audit Committee.

3.9.1.2. The state of participation in board meetings by the supervisors

The State of Participation in Board Meetings by the Supervisors

The chairman convened 7 (A) board of directors meetings in 2008. The directors' attendance status is as follows:

Title	Name (Note 1)	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%) 【B/A】 (Note 2)	Remarks
Supervisor	Tang-Ming Wu	6	-	85.71	-
Supervisor	Chung-Yi Yang	6	-	85.71	-
Independent Supervisor	Ken-Yi Cheng	5	-	71.43	-

Annotations:

1. Identity and responsibilities of supervisors:

(1) The communication status of supervisors, employees, and stockholders.

- i. Coming to the Company for inspection irregularly and communicating with employees at any time if necessary.
- ii. Usually attending the Board, shareholder meeting, and other important conferences as an observer to communicate with employees and stockholders.

(2) The communication status of supervisors, internal audit manager, and CPA.

- i. There was no dissenting opinion of supervisors on the audit report, presented by the audit manager in the next month after finishing auditing.
- ii. Audit manager attends the Board as an observer and presents audit reports periodically. There was no dissenting opinion of supervisors on those audit reports.
- iii. Communicating with CPA every half year about financial statements and latest financial and tax information.

2. There were no comments stated by a supervisor that should state date, term, proposal contents, all opinions of supervisors and handling of those opinions from corporate.

Note 1: Left date should be stated on the notes and attendance rate is calculated by the number of meetings on-the-job and attendance if there is any supervisor left office before the end of year.

Note 2: New and old supervisors should be filled out with the old, new, or renewal appointment stated on the notes.

Attendance rate is calculated by the number of meetings on-the-job and attendance if there is any supervisor left office before the end of year.

3.3.3 Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission:

Item	Implementation Status	Reason for Non-implementation
<p>1. Shareholding Structure & 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) 1. Conducting with the discussion rules of shareholders meetings when these meetings are held.</p> <p>2. The Company have the public relations team and stock affairs office to handle relative matters.</p> <p>(2) Corporate and stock agent institution hold the list of main shareholders and other controllers.</p> <p>(3) The Company and its subsidiaries are managed in conformity to relevant rules.</p>	<p>None</p> <p>None</p> <p>None</p>
<p>2. Composition and Responsibilities of the Board of Directors</p> <p>(1) Independent Directors</p> <p>(2) Regular evaluation of external auditors' independence</p>	<p>(1) Selecting two independent directors and one independent supervisor.</p> <p>(2) Since Holy Stone has issued public offering, a new hired accountant's professional ability and independency would be evaluated by directors (including independent directors), who also have the experiences in the area of accounting and finance.</p>	<p>None</p> <p>None</p>
<p>3. Communication channel with stakeholders</p>	<p>1. There are designated people handling relative matters.</p> <p>2. Independent directors and supervisors can connect with stakeholders if necessary.</p> <p>3. Providing latest information through the Market Observation Post System and Holy Stone's website.</p>	<p>None</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 an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)</p>	<p>(1) The Company has already founded a website which updates regularly and has the information of products, corporate introduction, and financial statements.</p> <p>(2) The Company has appointed spokespersons. In addition, the designated people are responsible for information collection and disclosure. Holy Stone also implements spokespersons regulation and webcasts investors conference reference.</p>	<p>None</p> <p>None</p>

Item	Implementation Status	Reason for Non-implementation
5. Operations of the Company's Nomination Committee, Compensation Committee, or other committees of the Board of Directors	The Company has not established the Audit Committee yet.	The Company's Certified Public Accountants audit the financial statements with an absolutely independent spirit. The Company is discussing the possibility of establishing the Audit Committee on the consideration of corporate governance, and will make execution based on relevant regulations if necessary.
<p>6. If the Company has established corporate governance policies based on TSE Corporate Governance Best Practice Principles, please describe any discrepancy between the policies and their implementation.:</p> <p>The Company is mapping out its corporate governance policies. Regarding to authority execution of directors and supervisors, internal control system, and relevant managing measures, we have complied with the policy and exercised indeed.</p>		
<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 and rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of consumer/customer protection policies, and purchasing insurance for directors and supervisors):</p> <p>(1)Employee rights and employee wellness</p> <ul style="list-style-type: none"> i. Forced labor and child labor are prohibited. Workers are free to leave upon reasonable notice. Workers under the age of 18 shall not perform hazardous work. The Company conforms to the restriction of night work of child labor. ii. Holy Stone adopts the Equal Employment Opportunity Rules. Any employee or applicant shall not be discriminated against based on sex, age, race, religion, color, national origin, disability or other factors. The workforce shall be free of harassment and unlawful discrimination. iii. Compensation paid to workers shall comply with all applicable wage laws and local practices to protect human right and employee benefits. This includes those relating to minimum wage, overtime hour, and so on. iv. Holy Stone always takes safety into the first consideration when designing factories or buildings. In addition to comfortable and safe working environment, we also conduct regular employee health examinations and fire and emergency drills. Holy Stone not only reminds employees of taking care of their health, but also teaches them to save themselves as an incident happened. According to the Labor Safety and Health Law, we have technicians of management of labor health and safety to be responsible for operation environment safety examination and the article of the Law instruction. Industrial safety is always the prior indicator of our internal audit for employee management; therefore, every employee and management team shall set goal for "Zero Accidents." v. The achievement of enterprise's goal relies on each employee's effort. Under such circumstances, labors and management are able to exercise their talents. Consequently, the relationship between labor and management plays an important role for the Company all the time. As of today, there is no dispute between labors and management. <p>(2)Investor relations: Appointing spokespersons and designated people to set up effective communication channel with investors and customers. The E-mail addresses go as follows: Spokeperson: IR@holystone.com.tw, and designated people: inquiry@holystone.com.tw .</p> <p>(3)Supplier relations: The Company manages supplier relations actively with good strategic cooperation.</p> <p>(4)Directors' attendance, supervisors' attendance as nonvoting delegates, and continuing education:</p> <ul style="list-style-type: none"> i. The Company's directors and supervisors have background in the area of commerce, law, finance, or accounting, and work experience in business management. ii. Website: http://mops.tse.com.tw. 		

Item	Implementation Status	Reason for Non-implementation
(5) Risk management policies Please refer to P.58-P.60 of this Annual Report.		
(6) The status of liability insurance bought by the corporate for directors and supervisors and social responsibility: Holy Stone has bought liability insurance for directors and supervisors, and the maximum amount of compensation is US\$5 million at a time and in an accumulative total.		
(7) The Company received CSR-related award from <i>Global Views Magazine</i> in 2009.		
8. If the Company has 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: None		
<p>Note 1: Continuing education status of directors and supervisors refers to the “ Reference materials of encouraging directors and supervisors in IPO corporates to get continue education “, which is issued by TWSE.</p> <p>Note 2: Risk management policies, risk measurement standards, and implement status of consumer protection and customer policies should be stated clearly for enterprises of Securities, Investment Trust, Investment Consulting, and Futures.</p> <p>Note 3: The so-called self corporate governance evaluation is based on its items, and their present statuses of operation and implement are evaluated and stated by the corporate itself.</p>		

3.3.4. Corporate Social Responsibility

3.3.4.1. Environmental protection

The Company is committed to environmental protection and strictly complies with legal requirements as well as measures up to recognized international practices. The Company has not only received ISO 14001 certification for environmental management system, but also contained the concept into corporate strategy; such as, drawing up the environmental principles, making energy efficiency target, and requiring suppliers' conformity of international practices. Furthermore, the Company has made its own environmental strategy as follows:

1. Complying with legal requirements and taking social corporate responsibility.
2. Establishing green company and developing green products.
3. Protecting environment and reducing process waste.
4. Continuing to improve environment and preventing environmental pollution.
5. Exercising environmental education and creating high quality life.

(1) Green company and green products

In order to develop as a green company, the Company has invested in gradual improvements on manufacturing facilities and office equipment. For example, the Company uses energy-efficient illumination equipment and smart meter, exercises recycling and waste reduction, plants trees, and so on. For products research and development, the Company not only meets the European Union's Restriction of Hazardous Substances (ROHS), but also makes lead-free and cadmium-free green products. Last but not least, the Company also assigns employees to take charge of reducing packaging and increasing reprocessed paper used in packaging.

(2) Environmental protection and pollution control

The Company has periodically collected and monitored several environmental performance evaluation indicators; such as, water emission reduction, water conservation, electricity conservation, and waste reduction, and has made a goal of energy saving and carbon reduction. By improving illumination, raising air conditioner's operating efficiency, installing static electricity oil purifier equipment, and combining with the operation of capacity optimization facilities, the Company aims to exercise electricity conservation and carbon reduction. Furthermore, the Company also expects to achieve waste reduction every year through process improvement, recycling enforcement, and garbage classification.

Regarding to pollution control, the Company has installed 14 effective stationary pollution control equipment in Longtan factory to meet regulatory emissions standards, and projects to purchase the "Volatile Organic Compounds Emission Control Equipment" to reduce pollution emission. The Company also installed a 600 ton/day wastewater treatment plant to meet wastewater emission standards and make periodical examination.

(3) Environmental education and notion promotion

The Company holds the "Environment Management Substances Control Criteria" and lecture and study every year, and encourages employees to save energy through training and communication. For example, promoting waste reduction and recycling in office, using environmental protection bags and tableware, and so on.

The Company not only exercises the notion of environmental protection in internal organization, but also commits itself to green supply chain management, promoting such idea to each supplier and partner. The Company maintains "green procurement" procedures, requiring raw materials suppliers to declare that the materials they supply to Holy Stone do not contain any prohibited substances. For supply chain management, each supplier has to have ISO 14000 certification and meet the European Union's Restriction of Hazardous Substances (ROHS), and should be inspected by the Company whenever.

3.3.4.2. Holy Stone and the community

(1) Holy Stone Foundation

Holy Stone Foundation was founded in December 2001 aiming to help the community and assist disadvantaged family. We not only established the Emergency Aid to help individuals and family in emergency, but also offer scholarship to poor but well-performed students, enabling those needed students to continue their studies. Furthermore, we sponsor several non-profit organizations to promote charitable activities, spreading love of those benevolent people to the community.

(2) Employee donation

Since 1997, the Company's employees have continuously made regular donation to non-profit organizations; such as, rural distinct hospitals and child care institutions.

(3)Combining corporate activities with public welfare

Recently, Holy Stone began to combine corporate activities with public welfare. For example, initiating donation for designated object and inviting disadvantaged minorities to perform in the yearend celebration.

(4)Honor records

Received CSR-related awards from *Global Views Magazine* in 2009.

3.3.4.3. Safety and health

In order to prevent incidents and protect employees' safety and health, the Company strictly complies with the "Labor Safety and Health Act" and continues to exercise protection on working environment and employee safety. The Company conducts physical examination annually and has corporation's infirmary to exercise health management, and it also posts warning labels and installs emergency response system to protect employees. Meanwhile, the Company enforces safety management and training; such as, providing new employees with general training, examining equipment based on the "Labor Safety and Health Act", and assigning qualified person to operate hazardous machinery and do special operations.

The Company conducts working environment measurement every half year to provide employees with sound working environment and safeguard employees' health, including measurement of factors such as noise, organic solvents, and air quality, along with quarterly examination on drinking water. Each result of above examinations has been in conformity to the regulatory standards so far, and the Company also implements improvement measures on recommendations proposed by the examine institution.

The Company holds emergency response training every half year or irregularly to enhance employees' abilities of emergency reaction and reduce losses on corporation when incident happened. The Company not only invites Longtan fire brigade to train each labor in factory, but also equips production line employees with response to chemical emergencies.

3.3.5.If Corporate Regulate Corporate Governance and Relevant Rules, the Inquiry Methods Should Be Disclosed

3.3.5.1. Regulations of Holy Stone

- (1)Articles of incorporation.
- (2)Shareholder meeting discussion rules.
- (3)Directors and supervisors selected measures.
- (4)Board of directors discussion rules.
- (5)Endorsement / Guarantee procedures.
- (6)Procedures governing the acquisition and disposal of assets.
- (7)Procedures governing loaning of funds.

3.3.5.2. Website: <http://www.holystone.com.tw>

3.3.6.Other Important Information which Is Able to Increase the Understanding of Corporate Governance Operation Should Be Disclosed Together.

None.

3.3.7. Internal Control System Execution Status Items

3.3.7.1 Statement of internal control system

Holy Stone Enterprise Co., Ltd.

Statement of Internal Control System

Date: March 30, 2009

Based on the findings of a self-assessment, Holy Stone states the following with regard to its internal control system during the period from January 1, 2008 to December 31, 2008:

1. Holy Stone is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. Holy Stone has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of Holy Stone contains self-monitoring mechanisms, and Holy Stone takes corrective actions whenever a deficiency is identified.
3. Holy Stone evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinbelow, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. Holy Stone has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, Holy Stone believes that, during the year 2008, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be an integral part of Holy Stone's Annual Report for the year 2008 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 30, 2009, with zero of the seven attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Holy Stone Enterprise Co., Ltd.

Chairman of the Board of Directors:

Jing-Rong Tang

President:

3.3.7.2 The disclosure of the external auditors' opinion on Holy Stone's internal control is not applicable.

3.3.8.The Status of Corporate and its Internal Staffs Punished by the Law, Punishment of the Corporate to its Internal Staffs Who Violate Internal Control Regulations, Main Drawbacks, and Improvement during 2008 and as of May 15, 2009.

None.

3.3.9.Important Decisions Made by Shareholder Meeting and the Board during 2008 and as of May 15, 2009.

Major resolutions of Shareholders' Meeting and Board Meetings during 2008 and as of May 15, 2009 were summarized as follows:

Date	Decided by	Major Resolutions	Implementation Status
2008.06.11	Shareholders' Meeting	<ol style="list-style-type: none"> 1.The approval for 2007 business report and financial statements. 2.The approval for the distribution of 2007 profits. 3.The approval for the capitalization of 2007 dividends and employee profit sharing. 4.The approval for the amendment of the Company's "Articles of Incorporation." 5.The approval for Shareholders' Meeting discussion rule. 6.The approval for releasing directors from the restriction of non-competition clause. 	All the resolutions of the Shareholders' Meeting have been fully implemented in accordance with the resolutions.
2008.01.14	Board Meeting	<ol style="list-style-type: none"> 1.The approval for 2008 business report. 2.The approval for the amendment of internal control system and internal audit system. 	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2008.03.17	Board Meeting	<ol style="list-style-type: none"> 1.The approval for 2007 business report and unconsolidated and consolidated financial statements. 2.The approval for the distribution of 2007 profits. 3.The approval for the capitalization of 2007 dividends and employee profit sharing. 4.The approval for the amendment of the Company's "Articles of Incorporation." 5.The approval for the amendment of Board meeting discussion rule. 6.The approval for 2007 Statement of Internal Control System. 7.The approval for convening the 2008 Annual Shareholders' Meeting. 8.The approval for Holy Stone Holdings Co., Ltd., the subsidiary of the Company, acquiring the stock shares of Mayatek Co., Ltd. (Belize) and releasing directors and managers designated to Mayatek Co., Ltd. (Belize) from the restriction of non-competition clause. 9.The approval for capital increase for Holy Stone Holdings Co., Ltd 	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2008.04.28	Board Meeting	<ol style="list-style-type: none"> 1.The approval for the amendment of Shareholders' Meeting discussion rule. 2.The approval for the amendment of the "Proposals of the 2008 Annual Shareholders' Meeting." 	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2008.06.30	Board Meeting	<ol style="list-style-type: none"> 1.The approval for RONG JHAN INVESTMENT CO., LTD., the subsidiary of the Company, acquiring the stock shares of OHGA Electronics Co., Ltd. and releasing directors and managers designated to OHGA Electronics Co., Ltd. from the restriction of non-competition clause. 2.The approval for capital increase for RONG JHAN INVESTMENT CO., LTD. 	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.

Date	Decided by	Major Resolutions	Implementation Status
2008.08.18	Board Meeting	The approval for the first half of 2008 financial statements and consolidated financial statements.	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2009.03.30	Board Meeting	<ol style="list-style-type: none"> 1.The approval for 2008 business report and unconsolidated and consolidated financial statements. 2.The approval for the distribution of 2008 profits. 3.The approval for the capitalization of 2008 dividends and employee profit sharing. 4.The approval for the amendment of the Company's "Articles of Incorporation." 5.The approval for the amendment of the Company's "Procedures Governing Loaning of Funds." 6.The approval for the amendment of the Company's "Endorsement & Guarantee Procedure." 7.The approval for arranging the election of directors and supervisors due to the expiration. 8.The approval for independent directors nomination and their qualification audit. 9.The approval for releasing directors elected by the 2009 Annual Shareholders' Meeting from the restriction of non-competition clause. 10.The approval for convening the 2009 Annual Shareholders' Meeting. 11.The approval for 2008 Statement of Internal Control System. 12.The approval for the director adjustment in HE JIA ELECTRONIC (DONG GUAN) LTD., an investee of the Company, and releasing directors from the restriction of non-competition clause. 	Resolution 1 and 11 of the Board Meeting have been fully implemented in accordance with the resolutions. Resolution 12 is in the process of registration of alteration. Others will be proposed to shareholders' meeting for decision and implemented in accordance with the decisions and election results.
2009.04.27	Board Meeting	Auditing proposals of 2009 Annual Shareholders' Meeting and the nomination of independent directors.	Planned to propose to 2009 Annual Shareholders' Meeting and will be implemented in accordance with decisions and election results.

3.3.10.Directors or Supervisors Who Have Different Opinions to Important Decisions Passed by The Board and With Records or Documental Declaration during 2008 and as of May 15, 2009.

None.

3.3.11.Collection of Resignation and Dismission of Financial Report Related Personnels during 2008 and as of May 15, 2009.

None.

3.4.Information Regarding Holy Stone's Independent Auditor

Unit: NTD thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Whether the CPA's Audit Period Covers an Entire Fiscal Year			Note
			System Design	Company Registration	Human Resource	Others	Subtotal	Yes	No	Audit Period	
KPMG	Ching-Sung Wang and Chia-Hsin Chang	2,620	-	-	-	75	75	V	-	-	-

3.4.1.Non-audit Fee Takes Over Quarter Share of Audit Fee or over NT\$500 Thousands: None

3.4.2.Changing Accounting Firms and Audit Fee Paid in the Changing year is less than that Paid in the Year before the Change: None.

3.4.3.Audit Fee is less than over Fifteen Percent Compared with the Past Fiscal Year.

3.5.Independent Auditor Replacement

Due to the organizational adjustment of KPMG, the Company's Independent Auditor's Report for the third quarter of 2008 was issued by CPA Ching-Sung Wang and Heng-Shen Lin while the Independent Auditor's Report for the fourth quarter of 2008 was issued by CPA Ching-Sung Wang and Chia-Hsin Chang.

3.6.Holy Stone's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations, who have held any positions within Holy Stone's independent audit firm or its affiliates during 2008, should disclose his name, title, and term.

None.

3.7. Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholdings or More

3.7.1. Status of Net Change in Shares Pledged by Directors, Supervisors, Managers, and Prime Shareholders

Unit: shares

Title	Name	2008		01/01/2009~04/18/2009	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & President	Jing-Rong Tang	240,057	-	-	-
Director	LIN TAN INVESTMENT CO., LTD.	141,746	-	-	-
Director & Vice Executive President	Shih-Yun Sheng	178,059	-	-	-
Director & Vice President	Shao-Kuo Huang	(156,809)	-	-	-
Independent Director	Nai-Hua Wu	-	-	-	-
Independent Director	Chu-Yang Chien	-	-	-	-
Supervisor	Tang-Ming Wu	8,330	-	-	-
Supervisor	Chung-Yi Yang	6,400	-	-	-
Independent Supervisor	Ken-Yi Cheng	-	-	-	-
Director & Vice Executive President	Fang-Ming Lo	194,929	-	-	-
Vice President of Management Team	Yu-Min Wu	89,659	-	-	-
Vice President	Sheng-Yao Lu	(44,363)	-	(10,000)	-
Vice President	I-Ta Lee	50,725	-	-	-
Vice President	Hui-Bang Yeh	77,364	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang	38,136	-	-	-

3.7.2. Information of Net Change in Shareholding: None.

3.7.3. Information of Net Change in Shares Pledged: None.

3.8. Information on Our 10 Largest Shareholders Who are Related Parties to Each Other

None of Holy Stone's 10 largest shareholders are related parties to each other.

3.9. Shares of the Same Transferred Investment Industry Held by Corporate, Directors of Corporate, Supervisors, Managers, and the Industries which Are Controlled Directly and Indirectly by Corporate, along with Long-term Investments Ownership

Unit: shares / % as of 12/31/2008

Transferred Investment Industry	Ownership by Holy Stone		Direct/Indirect Ownership by Directors , Supervisors and Management		Total Ownership	
	Shares	%	Shares	%	Shares	%
Holy Stone Enterprise(H.K)Co., Ltd.	11,500,000	100.00	-	-	11,500,000	100.00
Holy Stone Holdings Co.,Ltd.	26,976,000	100.00	-	-	26,976,000	100.00
UHOLY INVESTMENT CO., LTD.	22,500,000	57.69	7,000,000	17.95	29,500,000	75.64
Taiwan MAHK OPT. CO., Ltd.	176,396	70.56	-	-	176,396	70.56
KALLEX COMPANY LTD.	6,723,000	67.77	-	-	6,723,000	67.77
MARTEK CO., LTD.	2,000,000	100.00	-	-	2,000,000	100.00
RONG JHAN INVESTMENT CO., LTD.	20,000,000	100.00	-	-	20,000,000	100.00

4. The Status of Funds Raising

4.1. Capital and Shares

4.1.1. Capitalization

4.1.1.1 The process of capitalization

Unit: share / NT\$

Month / Year	Issue Price	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
06/1981	10,000	200	2,000,000	200	2,000,000	Cash Incorporation	None	None
07/1984	10,000	300	3,000,000	300	3,000,000	Cash NT\$1 million	None	None
07/1987	10,000	2,000	20,000,000	2,000	20,000,000	Cash NT\$17 million	None	None
10/1980	10,000	2,800	28,000,000	2,800	28,000,000	Cash NT\$8 million	None	None
08/1995	10,000	6,000	60,000,000	6,000	60,000,000	Retained earnings NT\$3.5 million and cash NT\$28.5 million	None	None
12/1997	10	19,800,000	198,000,000	19,800,000	198,000,000	Retained earnings NT\$72 million and cash NT\$66 million	None	None
08/1998	10	30,000,000	300,000,000	30,000,000	300,000,000	Retained earnings NT\$29.7 million and cash NT\$72.3 million	None	None
10/1999	10	55,000,000	550,000,000	36,690,000	366,900,000	Retained earnings NT\$54.9 million and capital surplus NT\$12 million	None	None
07/2000	10	59,500,000	595,000,000	56,174,133	561,741,330	Retained earnings NT\$150.17 million, capital surplus NT\$7.388 million, and cash NT\$37.333 million (Note 1)	None	None
07/2001	10	291,600,000	2,916,000,000	112,530,852	1,125,308,520	Retained earnings NT\$563.567 million (Note 2)	None	None
09/2002	10	291,600,000	2,916,000,000	127,955,555	1,279,555,550	Retained earnings NT\$97.982 million and capital surplus NT\$56.265 million (Note 3)	None	None
06/2003	10	291,600,000	2,916,000,000	127,978,095	1,279,780,950	Convertible bond for stock NT\$0.225 million (Note 4)	None	None
09/2003	10	291,600,000	2,916,000,000	140,099,983	1,400,999,830	Retained earnings NT\$121.219 million (Note 5)	None	None
09/2003	10	291,600,000	2,916,000,000	143,520,916	1,435,209,160	Convertible bond for stock NT\$34.209 million (Note 4)	None	None
12/2003	10	291,600,000	2,916,000,000	147,065,726	1,470,657,260	Convertible bond for stock NT\$35.448 million (Note 4)	None	None

Month / Year	Issue Price	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
03/2004	10	291,600,000	2,916,000,000	150,700,193	1,507,001,930	Convertible bond for stock NT\$36.345 million (Note 4)	None	None
07/2004	10	291,600,000	2,916,000,000	181,483,126	1,814,831,260	Retained earnings NT\$120.678 million, capital surplus NT\$59.1 million, convertible bond for stock NT\$9.17 million and merge NT\$118.881 million (Note 4, 7 and 9)	None	None
09/2004	10	291,600,000	2,916,000,000	181,577,222	1,815,772,220	Convertible bond for stock NT\$0.941 million (Note 4)	None	None
12/2004	10	291,600,000	2,916,000,000	182,805,842	1,828,058,420	Convertible bond for stock NT\$1.036 million and exercise of stock options NT\$11.25 million (Note 4, 6 and 8)	None	None
03/2005	10	291,600,000	2,916,000,000	183,202,780	1,832,027,800	Convertible bond for stock NT\$1.119 million and exercise of stock options NT\$2.85 million (Note 4 and 8)	None	None
06/2005	10	291,600,000	2,916,000,000	185,987,480	1,859,874,800	Convertible bond for stock NT\$15.787 million and exercise of stock options NT\$12.06 million (Note 4, 6 and 8)	None	None
08/2005	10	291,600,000	2,916,000,000	200,211,772	2,002,117,720	Retained earnings NT\$142.243 million (Note 10)	None	None
09/2005	10	291,600,000	2,916,000,000	203,447,283	2,034,472,830	Convertible bond for stock NT\$24.795 million and exercise of stock options NT\$7.56 million (Note 4, 6 and 8)	None	None
12/2005	10	291,600,000	2,916,000,000	210,997,513	2,109,775,130	Convertible bond for stock NT\$62.742 million and exercise of stock options NT\$12.56 million (Note 4, 6 and 8)	None	None
03/2006	10	291,600,000	2,916,000,000	221,660,149	2,216,601,490	Convertible bond for stock NT\$87.571 million and exercise of stock options NT\$19.255 million (Note 4, 6 and 8)	None	None
06/2006	10	291,600,000	2,916,000,000	223,232,683	2,232,326,830	Convertible bond for stock NT\$8.435 million and exercise of stock options NT\$ 7.29 million (Notes 4, 6 and 8)	None	None
08/2006	10	291,600,000	2,916,000,000	240,481,019	2,404,810,190	Retained earnings NT\$172.483 million (Note 11)	None	None
09/2006	10	291,600,000	2,916,000,000	244,923,762	2,449,237,620	Convertible bond for stock NT\$30,197,000 and exercise of stock options NT\$14,230,000 (Note 4, 6 and 8)	None	None
12/2006	10	291,600,000	2,916,000,000	245,974,190	2,459,741,900	Convertible bond for stock NT\$7.044 million and exercise of stock options NT\$3.46 million (Note 6 and 8)	None	None
03/2007	10	291,600,000	2,916,000,000	249,333,118	2,493,331,180	Convertible bond for stock NT\$30.689 million and exercise of stock options NT\$2.9 million (Note 6 and 8)	None	None
06/2007	10	350,000,000	3,500,000,000	250,882,162	2,508,821,620	Convertible bond for stock NT\$15.295 million and exercise of stock options NT\$0.195 million (Note 6 and 8)	None	None

Month / Year	Issue Price	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
08/2007	10	350,000,000	3,500,000,000	267,232,348	2,672,323,480	Retained earnings NT\$139.126 million and capital surplus NT\$24.375 million (Note 13)	None	None
09/2007	10	350,000,000	3,500,000,000	269,466,015	2,694,660,150	Convertible bond for stock NT\$22.337 million (Note 6)	None	None
12/2007	10	350,000,000	3,500,000,000	270,327,399	2,703,273,990	Convertible bond for stock NT\$8.614 million (Note 6)	None	None
03/2008	10	350,000,000	3,500,000,000	270,360,006	2,703,600,060	Convertible bond for stock NT\$0.326 million (Notes 6)	None	None
06/2008	10	350,000,000	3,500,000,000	270,395,331	2,703,953,310	Convertible bond for stock NT\$0.353 million (Note 6)	None	None
08/2008	10	350,000,000	3,500,000,000	278,748,849	2,787,488,490	Retained earnings NT\$83.535 million (Note 12)	None	None
09/2008	10	350,000,000	3,500,000,000	280,645,587	2,806,455,870	Convertible bond for stock NT\$0.353 million (Note 6)	None	None

Note 1: Approval on April 7, 2000 and by SFE Ruling (89) Tai-Tsai-Cheng (1) No. 28097. Approval on April 12, 2000 and by SFE Ruling (89) Tai-Tsai-Cheng (1) No. 30269.

Note 2: Approval on June 4, 2001 and by SFE Ruling (90) Tai-Tsai-Cheng (1) No. 134451.

Note 3: Approval on August 30, 2002 and by SFE Ruling Tai-Tsai-Cheng (1) 0910147849.

Note 4: Approval on May 16, 2002 and by SFE Ruling Tai-Tsai-Cheng (1) No. 116296.

Note 5: Approval on August 4, 2003 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0920134915.

Note 6: Approval on March 29, 2004 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0930109717.

Note 7: Approval on June 9, 2004 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0930125605.

Note 8: Approval on June 25, 2002 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0910133029.

Note 9: Approval on May 25, 2004 and by SFE Ruling Tai-Tsai-Cheng (1) No. 0930121923.

Note 10: Approval on June 22, 2005 and by FSC Ruling Chin-Kuan-Cheng (1) 0940125011.

Note 11: Approval on July 6, 2006 and by FSC Ruling Chin-Kuan-Cheng (1) 0950128860.

Note 12: Approval on June 20, 2008 and by FSC Ruling Chin-Kuan-Cheng (1) 0970030925.

Note 13: Authorized share capital is the registered data in item card of Ministry of Economic Affairs, R.O.C.

4.1.1.2 Shares

Unit: share as of 04/18/2009

Type of Stock	Authorized Share Capital			Note
	Outstanding Shares (Listed)	Unissued Shares	Total	
Common Stock	280,645,587	69,354,413	350,000,000	None

Note: Authorized share capital is the registered data in item card of Ministry of Economic Affairs, R.O.C.

4.1.2. Composition of Shareholders

Unit: share as of 04/18/2009

Number \ Type	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Repurchase Stock	Total
Number of Shareholders	1	13	101	52	30,975	-	31,142
Shareholding	7	27,337,381	49,430,632	11,940,841	191,936,726	-	280,645,587
Holding Percentage	0.00%	9.74%	17.61%	4.25%	68.40%	-	100.00%

4.1.3. Distribution Profile of Share Ownership

As of 04/18/2009

Shareholder Ownership	Number of Shareholders	Ownership	Ownership(%)
1-999	10,276	1,785,029	0.64%
1,000-5,000	14,496	29,914,090	10.66%
5,001-10,000	3,252	21,379,163	7.62%
10,001-15,000	1,297	14,636,845	5.22%
15,001-20,000	462	7,887,595	2.81%
20,001-30,000	546	12,720,822	4.53%
30,001-40,000	222	7,432,667	2.65%
40,001-50,000	143	6,386,867	2.28%
50,001-100,000	242	16,296,665	5.81%
100,001-200,000	98	13,089,559	4.66%
200,001-400,000	42	11,306,369	4.03%
400,001-600,000	13	6,265,756	2.23%
600,001-800,000	8	5,192,481	1.85%
800,001-1000,000	9	8,207,029	2.92%
Over 1,000,001	36	118,144,650	42.09%
Total	31,142	280,645,587	100.00%

4.1.4. Major Shareholders

As of 04/18/2009

Shareholders	Shares	Total Shares Owned	Ownership(%)
LIN TAN INVESTMENT CO., LTD.		14,419,239	5.14%
LUNG KO INVESTMENT CO., LTD.		13,260,227	4.72%
Nan Shan Life Insurance Co., Ltd		11,493,981	4.10%
Jing-Rong Tang		8,812,908	3.14%
Fang-Ming Lo		5,810,527	2.07%
Shih-Yun Sheng		4,094,407	1.46%
Trust Committee of CTCB authorized by Holy Stone's employees		3,893,630	1.39%
Mei-Yu Lin		3,326,439	1.19%
LUNG HSIN INVESTMENT CO., LTD.		3,311,391	1.18%
Taiwan Life Insurance Co., Ltd.		2,984,337	1.06%

4.1.5. Market Price, Net Worth, Earnings, Dividends Per Common Share, and Relevant Information During 2007 and 2008

Unit: thousand shares / NT\$

Item		Fiscal Year	2007	2008	01/01/2009 ~04/30/2009
Market price per share (Note 1)	Highest market price		75.0	47.15	28.05
	Lowest market price		41.5	16.05	17.50
	Average market price		57.75	34.64	23.38
Net worth per share (Note 2)	Before distribution		27.86	26.03	27.12
	After distribution		24.62	-	-
Earnings per share	Weighted average shares		267,253	279,608	280,646
	Earnings per share (Note 3)		4.45	2.41	0.66
Dividends per share	Cash dividends		3.00	1.6	-
	Stock dividends	From retained earnings	0.1	0.2	-
		From capital surplus	-	-	-
	Accumulated undistributed dividends (Note 4)		-	-	-
Returns on investment	Price / Earnings Ratio (Note 5)		12.98	14.37	-
	Price / Dividend Ratio (Note 6)		19.25	21.65	-
	Cash Dividend Yield (Note 7)		5.19%	4.62%	-

Note 1: List the highest and lowest market price per share; also, calculate average market price per share in accordance with the trade amount and shares.

Note 2: Please base the information on the shares issued at year end and the resolution for stock distribution at shareholders meeting.

Note 3: If the stock dividend is to be adjusted retroactively, please list the earnings per share before and after the adjustment.

Note 4: According to the regulations of security issuance, if the dividend that is not distributed can be accumulated till the year with retained earnings, the accumulated unpaid dividend of the year must be disclosed.

Note 5: Profit ratio = Closing price per share of the year / Earnings per share

Note 6: Earning ratio = Closing price per share of the year / Cash dividend per share

Note 7: Cash dividend yield rate = Cash dividend per share / Closing price per share of the year

Note 8: Net worth per share and earnings per share should be collected from the latest audited quarterly financial statements as of the annual report printed date. Other columns should be collected up to December 31, 2008.

4.1.6. Share Information and Executive Status

4.1.6.1. Stock information

For the Company's mid-term and long-term operating growth and capital need for investing activities, together with the goal of healthy financial structure, the distribution of profits is proposed to the Annual Shareholders' Meeting by the Board. The appropriation of the Company's net income may be distributed by way of cash dividend and/or stock dividend considering future capital demand and stock dilution. Stock dividends take 0% to 50% of total dividends, while cash dividends take 50% to 100% of total dividends.

4.1.6.2 Decided status of dividends allocation during 2008

On March 30, 2009, Holy Stone's Board of Directors approved a proposal for distribution of 2008 profits with a cash dividend of NT\$1.6 and NT\$0.2 stock dividend per share, which have not been approved by the Annual Shareholders' Meeting yet.

4.1.7. Impact to 2009 Business Performance and EPS Resulting from Stock Dividend Distribution:

Item		Year	2009 (Estimated)
Paid-up Capital, in the Beginning			2,806,456,000
Dividends Paid in 2008	Cash Dividend Per Share (Note 1)		NT\$1.6
	Stock Dividend Per Share from Capitalization of Profits (Note 1)		0.02 shares
	Stock Dividend Per Share from Capital Surplus		-
Changing in Operating Performance	Operating Revenue		Not Applicable (Note 2)
	Changing in Operating Revenue		
	Net Income		
	Changing in Net Income		
	Earnings Per Share		
	Changing in Earnings Per Share		
	Average Returns on Investment (A Reciprocal of P/E Ratio)		
Budgeted Earnings Per Share and P/E Ratio	If Capitalization of Profits is Replaced by Cash Dividends	Budgeted Earnings Per Share	Not Applicable (Note 2)
		Budgeted Yearly Average Returns on Investment	
	If Capital Surplus is not Conducted	Budgeted Earnings Per Share	
		Budgeted Yearly Average Returns on Investment	
	If Capital Surplus is not Conducted and Capitalization of Profits is Replaced by Cash Dividends	Budgeted Earnings Per Share	
		Budgeted Yearly Average Returns on Investment	

Note 1: Decided by Annual Shareholders' Meeting of 2009.

Note 2: As the regulation of "Publicly Traded Corporate Public Financial Estimation Process Standard", Holy Stone does not have to disclose the financial estimation information in 2009.

4.1.8. Profit Distribution Set Aside as Directors & Supervisors Compensation, and Employee Profit Sharing:

4.1.8.1. Profit distribution set aside as directors & supervisors compensation, and employee profit sharing on Holy Stone's Articles of Incorporation

According to the Company's Articles of Incorporation No.20, 10 percent of the annual earnings, after payment of income taxes due and offsetting accumulated deficits, shall be set aside as a legal reserve. The remaining earnings may be drafted by the Board and resolved by the shareholders' meeting then distributed as follows:

- (1)Employee profit sharing is no less than 7%.
 - (2)Directors & Supervisors compensation are no more than 3%.
 - (3)The surplus is dividends and bonuses to shareholders.
- 4.1.8.2. Planned employee profit sharing information approved by the Board
- Planned Employee Profit Sharing approved by the Board, the amount of Directors & Supervisors Compensation, and information on earnings per share:
- (1)The amount of Employee Profit Sharing is NT\$25,500,000 and that of Directors & Supervisors compensation is NT\$ 15,100,000.
 - (2)Planned Employee Profit Sharing in Stock is NT\$25,000,000, and the issued stock shares will be calculated by the closing price the day before the 2009 Annual Shareholders' Meeting considering the ex-dividend effect. Stock less than one share will be distributed in cash.
 - (3)The budgeted earnings per share considering planned Employee Profit Sharing and Directors & Supervisors Compensation is \$2.41.
- 4.1.8.3. The status of earnings being distributed to Employee Profit Sharing and Directors & Supervisors Compensation in 2007

Holy Stone practically distributed NT\$94,000,000 to Employee Profit Sharing and NT\$27,000,000 to Directors & Supervisors Compensation. Employee Profit Sharing in Stock was a 2.10 percent of total outstanding common stock at the end of 2007, which was equivalent to what the Board had planned. If Employee Profit Sharing was paid in cash and recognized as expense with Directors & Supervisors Compensation, the budgeted earnings per share after tax of 2007 would be NT\$4.11, a decrease of NT\$0.34.

4.1.9.Buyback of Common Stock

In 2008 and as of the date of this Annual Report, the Company did not buyback any common stock.

4.2.Issuance of Corporate Bonds

None.

4.3.Preferred Shares

None.

4.4.Issuance of American Depositary Shares

None.

4.5. Status of Employee Stock Option Plan

4.5.1. Issuance of Employee Stock Options and Impact to Equity

As of 04/30/2009

Employee Stock Options Granted	Third Grant		Fourth Grant
Approval Date by the Securities & Futures Bureau	07/28/2006		11/21/2007
Issuing Status	08/21/2006	06/15/2007	12/03/2007
Duration	08/21/2006~08/20/2012	06/15/2007~06/14/2013	12/03/2007~12/02/2017
Number of Options Granted	1,500,000	3,500,000	10,000,000
Percentage of Shares Exercisable to Outstanding Common Shares	0.62%	1.39%	3.70%
Shares Exercisable Term	08/21/2008 08/20/2012	06/15/2009 06/14/2013	12/03/2009 12/02/2017
Source of Option Shares	New Common Share	New Common Share	New Common Share
Vesting Schedule (%)	2 nd Year: up to 50% 3 rd Year: up to 25% 4 th Year: up to 25%	2 nd Year: up to 50% 3 rd Year: up to 25% 4 th Year: up to 25%	2 nd Year: up to 15% 3 rd Year: up to 15% 4 th Year: up to 25% 5 th Year: up to 25% 6 th Year: up to 20%
Shares Exercised	-	-	-
Value of Shares Exercised	-	-	-
Shares Unexercised	1,500,000 shares	3,500,000 shares	10,000,000 shares
Grant Price Per Share	NT\$49.3	NT\$58.5	NT\$50
Percentage of Shares Unexercised to Outstanding Common Shares (%)	0.53%	1.25%	3.56%
Impact to Stockholders' Equity	The dilution ratio to original common stock stockholders' equity is 0.53%; therefore, there is limited dilution effect.	The dilution ratio to original common stock stockholders' equity is 1.25%; therefore, there is limited dilution effect.	The dilution ratio to original common stock stockholders' equity is 3.56%; therefore, there is limited dilution effect.

4.5.2. Employee Stock Options Granted to Management Team and to Top 10 Employees with an Individual Grant Value over NT\$30,000,000

Unit: thousand shares/thousand NTD As of 04/30/2008

Title	Name	Number of Options Granted	% of Shares Exercisable to Outstanding Common Shares	Exercised				Unexercised			
				Shares Exercised	Exercise Price Per Share	Value of Shares Exercised (NT\$)	% of Shares Exercised to Outstanding Common Shares	Shares Unexercised	Adjusted Grant Price Per Share (Note 5)	Value of Shares Unexercised	% of Shares Unexercised to Outstanding Common Shares
President	Jing-Rong Tang	3,900 In total (Note 4)	1.39%	-	-	-	-	1,500 (Note 1)	39.3	58,950	0.53%
Vice Executive President	Fang-Ming Lo			-	-	-	-				
Vice Executive President	Shih-Yun Sheng			-	-	-	-				
Vice President	Yu-Min Wu			3,500 (Note 2)	47.7	166,950	1.25%				
Vice President	Shao-Kuo Huang							-	-	-	-
Assistant Manager	Sheng-Yao Lu							-	-	-	-
Assistant Manager	I-Ta Lee			10,000 (Note 3)	44.5	445,000	3.56%				
Assistant Manager	Hui-Bang Yeh							-	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang							-	-	-	-
Employees	Corporate employees			11,100	3.96%						

Note 1: Employee stock options granted issuance in 08/21/2006.

Note 2: Employee stock options granted issuance in 06/15/2007.

Note 3: Employee stock options granted issuance in 12/03/2007.

Note 4: Managers have not exercised employee stock options granted.

Note 5: Options granted price at present.

4.6. Mergers and Acquisitions

None.

4.7. Status of New Share Issuance in Connection with Acquisitions

None.

4.8. Financing Plans and Implementation

None.

5. Operational Highlights

5.1 Business Activities

5.1.1. Business Scope

5.1.1.1 Holy Stone's core business

- (1) Porcelain and Ceramic Products Manufacturing.
- (2) Electronic Parts and Components Manufacturing.
- (3) Computers and Peripheral Equipment Manufacturing.
- (4) Other Electrical Engineering and Machinery Manufacturing.
- (5) Ironware Wholesale Business.
- (6) Electric Appliance Wholesale Business.
- (7) Computers and Machinery & Equipment Wholesale Business.
- (8) Telecommunication Wholesale Business.
- (9) Information Software Wholesale Business.
- (10) Electronic Materials Wholesale Business.
- (11) Ironware Retailing.
- (12) Electric Appliance Retailing.
- (13) Computers and Machinery & Equipment Retailing.
- (14) Precision Instrument Retailing.
- (15) Telecommunication Retailing.
- (16) Information Software Retailing.
- (17) Electronic Materials Retailing.
- (18) Other Retailing.
- (19) Other Large Retailing.
- (20) International Trading Business.
- (21) RF Equipment Importing.
- (22) In addition to the allowed businesses, Holy Stone can operate those which do not prohibited and limited by laws.

5.1.1.2 Shares of sales revenue in core products (2008)

Item	Shares of Sales Revenue
Passive Components	32.59%
Active Components	25.72%
System & Module	19.25%
Other Components	22.44%
Total	100.00%

5.1.1.3 Products and service items

- (1) Passive Components, such as, capacitors and etc.
- (2) Active Components, such as IC and etc.
- (3) System & Module.
- (4) Other components.

5.1.1.4 New products planned to develop

New products that Holy Stone plans to develop are as follows:

- (1) Continuing to develop BME medium-high capacitance series products; such as, X5R, X7R, and Y5V.
- (2) Developing MLCCs for military and industrial applications.
- (3) Developing filter capacitors for aircraft and industrial applications.
- (4) Developing thermal ceramic substrates for high current application.
- (5) Continuing to develop thermal ceramic substrates for LED application.

5.1.2. Industry Overview

5.1.2.1. Current status and future outlook of the industry

In 2008, the financial tsunami hit global economy, making a slump in international stock market and flagging consumer spending. As a result, the global economy slowed down rapidly, the unemployment rate increased significantly, and high-tech corporations cut their financial forecast orderly. Looking ahead into 2009, Global Insight forecasted that global GDP growth rate will be minus 2.2 percent, Europe and America and Japan will enter into recessions, and the average growth rate of Asian developing countries will be 2.4 percent. Since a decrease in capital expenditures and consumer spending may make insufficient demand, it will be a hard and challenging year for every corporation in 2009.

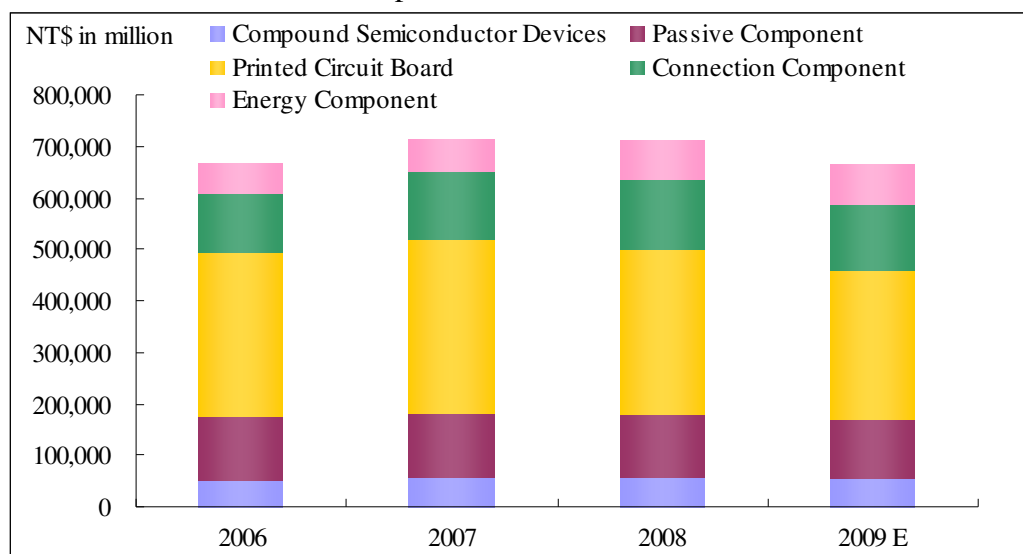
Although the economy is probable to recover during the second half of 2009, global electronic component industry will still be impacted by the decreasing average selling price and weak end-market demand. IEK forecasted Taiwan electronic components production value to be approximately NT\$662.8 billion. Viewing the applications of computer electronics, communication electronics, consumer electronics, and automotive electronics, there are still some products with growth potential. In particular, the industry of LED, IPC, and network will be infused with new demand since governments all strive for expanding public infrastructure plans. Furthermore, in order to expand domestic demand, China government accelerates subsidy execution of purchasing home appliances, cars, and computers in rural countries. The triggered consumer spending is expected to smooth strikes caused by the economic recession in Taiwan's electronic industry.

The impact of this economic recession on passive component industry is expected to be more serious than that of the technology bubble in 2001. Companies not only have to reduce inventory, but also need to wait for demand recovery. Generally speaking, domestic passive component corporation outlook of 2009 is similar to the trend of global industry. However, the competition will become fiercer in 2009 because of weak Korea Won and Japanese corporation's back to standard MLCC manufacturing.

Though there are many uncertainties in 2009 market, MLCC will regain growth capability after the economic recovery due to its extensive application. Both high-performance and low-performance products have their own market. The explosive growth of consumption in emerging market offers great demand for MLCC, while

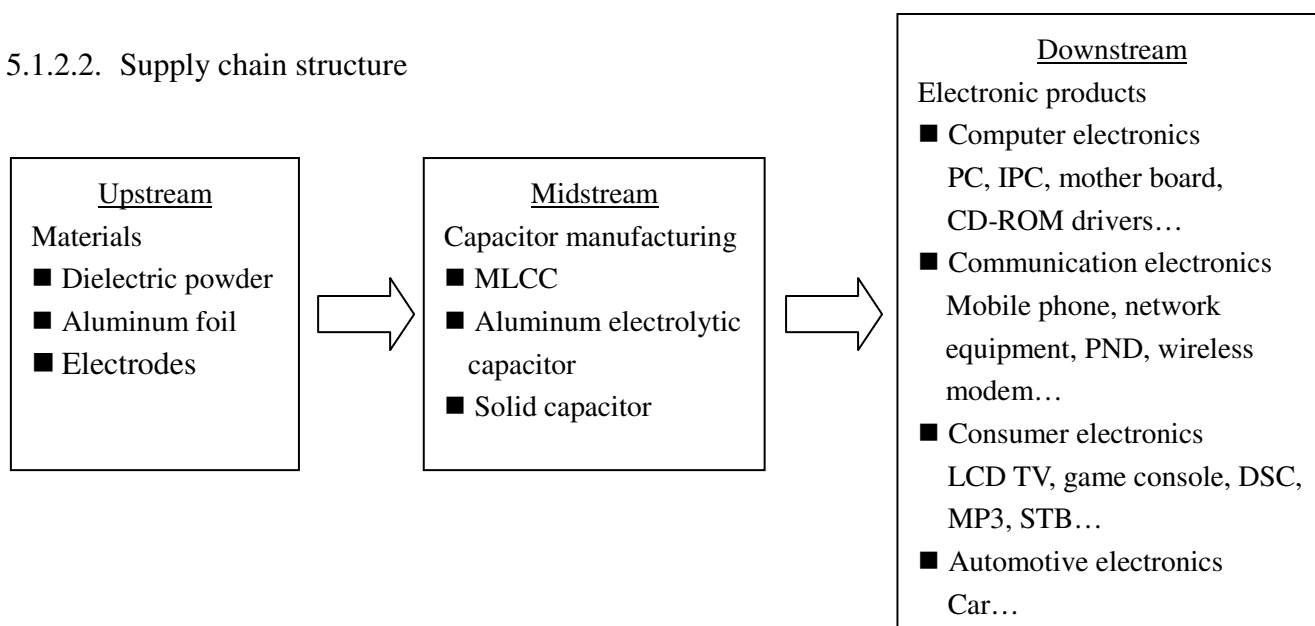
consumer behavior of chasing products upgrade and preference for multifunctional products stimulate the demand for high-performance products with high price MLCC.

Taiwan Electronic Components Production Value from 2006 to 2009



Source: IEK (2009/02)

5.1.2.2. Supply chain structure



5.1.3. A Commitment to Research and Development

5.1.3.1 R&D expenditures during 2008 and as of the date of this Annual Report

Unit: NT\$ in thousands

Item	2008	As of April 30, 2009
R&D expenditures	133,189	32,647
Net sales	12,777,454	3,198,192
Percentage	1.04%	1.02%

5.1.3.2 Successful development of manufacturing services and technologies

The Company not only continues to develop medium and high capacitance products, but also finishes developing industrial-use capacitors and modules, which have gotten the recognition from customers. In order to achieve higher quality of those kinds of capacitors, the Company keeps developing BME materials and processes and completes the development of relevant systems to meet the requirement of every specific end product. Regarding to ceramic substrates, the Company continues to build the technology of substrates production, and finishes the technical development of embedding various metals in ceramics to meet the demands of each industry and each customer.

5.1.4. Short-term and Long-term Development Strategies

5.1.4.1 Promotion strategies

(1)Short-term

- A.Offering faster service for goods delivery to cope with economic boom.
- B.Continuing to attract new customers and expand service scope.
- C.In addition to 3C industries, developing industrial electronics market with all efforts.

(2)Long-term

- A.Keeping solid partnership with customers.
- B.Strengthening competency in new market expansion by means of technical service.
- C.Meeting customers' demand with adequate products and increasing components added value.
- D.Strengthening and deepening our China strategy to extend selling base.

5.1.4.2 Production policies

(1)Short-term

- A.Finishing the foundation of LiTzer factory and its production scheme.
- B.Increasing the weight on specific application MLCC production.
- C.Controlling inventory severely to reduce obsolete materials.
- D.Establishing fast and flexible producing and dispatching capability to meet customers' need.

(2)Long-term

- A.Raising the ability of R&D and producing processes.
- B.Investing labors to strengthen producing speed of new products and expand products base.
- C.Strengthening technology management to raise process standard and producing benefit.
- D.Optimizing production process to save time.

5.2. Market and Sales Overviews

5.2.1. Market Analysis

5.2.1.1 Sales by geographical area

The Company mainly sells products to computer electronic industries, and expands its target customers to those in European and American market to increase exports.

Sales rate by geographic area in 2008 and 2007

Unit: NT\$ in thousand

Area \ Year	2007		2008		
	Gross Sales	Percentage	Gross Sales	Percentage	
Domestic	3,353,899	25.48%	2,427,523	19.00%	
Export	Asia	9,497,929	72.14%	10,141,285	79.37%
	Americas	249,899	1.90%	137,347	1.07%
	Europe	62,167	0.47%	70,512	0.55%
	Others	1,751	0.01%	787	0.01%
Total	13,165,645	100.00%	12,777,454	100.00%	

5.2.1.2 Market share

The Company's core products are niche capacitors, active components, and System & Modules. Net sales totaled NT\$12,777,454 thousand in 2008, a decrease of 2.95% from 2007 due to the financial tsunami. Those core products take significant market share in the whole market.

5.2.1.3 Supply and demand status and growth of future market

(1) Market demand analysis

The demand for electronic products is expected to slow down by the impact of the economic recession. We are going to forecast the MLCC market of 2009 by reviewing communication application, computer application, and consumer application.

2009 Taiwan Computer Hardware Products Shipment Forecast

Unit: 1,000

Product	Shipments of 2008 (E)	Shipments of 2009 (F)	YoY (F)
Notebook	115,121	127,312	10.6%
Desktop	45,759	44,854	-2.0%
Mother board	101,637	96,179	-5.4%
Server	3,166	3,382	6.8%
LCD monitor	113,067	114,198	1.0%
CD-ROM drivers	99,424	105,936	6.5%
DSC	50,505	53,162	5.3%
Netbook	11,098	22,418	102%

Source: MIC (2008/12)

In 2008, with white brand cell phone springing up in China and high growth rate of smart phone, mobile phone market has developed into both high and low classes. Since emerging countries and developed countries were both impacted by the financial crisis, IDC forecasted that global mobile phone market will step into recession, while smart phone is able to keep growing in 2009. Benefit by the explosive growth for Netbook, global PC shipment has reached 0.3 billion in 2008 even though the effect of Window VISTA was limited and the financial tsunami impacted the industry. Netbook will become main growth engine for notebook market. IPC industry cannot avoid impacts from this crisis. As corporate investment decreases, infrastructure expenditure from each government will play an important role in this industry outlook. Furthermore, LCD TV is still the major demand for consumer electronic. According to DisplaySearch, total LCD TV shipment of 2009 will hit 1,130 millions, an increase of 16.4 percent from 2008. Driven by digital broadcasting, STB shipment is expected to grow at high speed. Game console is considered to have a better performance compared with other products, and will continue to stimulate needs for passive components. However, consumer products are easily impacted by the economic recession; therefore, we hold a conservative view on this industry outlook.

(2)Market supply analysis

Current capacitor market is shared by Japanese, Korean and Taiwanese companies, and Japanese corporations hold the technical strength and lead the industry. The trend of electronic products keeps striding forward to lightness, thinnest, shortness and minimization, and high function. There is fierce competition among high capacitance MLCC with Y5V material, and Taiwanese passive component business is the major supplier. By contrast, Japanese companies take leading place in highly difficult process, using X5R material. In 2008, Korean companies successfully manufactured high capacitance MLCC rivaling Japanese competitors, and they took advantage of cheaper Korea Won to expand their global market share. The financial crisis compelled Japanese corporations to return to standard MLCC manufacturing because of deteriorating revenues, increasing the market competition. On the other hand, the crisis also made companies plan for capital expenditure cuts and capacity control, helping market demand and supply become healthier and MLCC price get more stable in 2009.

(3)Growth of future market

Passive components take the largest share of the Company's sales portfolio. Active components take about 26 percent of 2008 net sales, Systems & Modules take approximately 19 percent, and other components share nearly 22 percent. For passive components, the Company continues to develop and produce niche MLCC, X5R and X7R series products in BME process, military and industrial MLCC, and so on. For active components and other components, the Company not only serves as a distributor but also offers complete solutions to customers. For Systems & Modules, we depend on the techniques of MCU and wireless transmission to develop energy-efficient products. Since all of the aforementioned markets have growth potentials, the Company will have an ability to grow stably in the future.

The Company's market has a close relationship with the trend of computer electronic industry, communication electronic industry, consumer electronic industry, and automotive electronic industry. Struck by economic recession of 2009, sales volume of personal computer and mobile phone might decrease, and demands for consumer electronics might be tough. However, Netbook, CULV NB, smart phone, white brand cell phone, LCD TV, STB, and game console are likely to bring stronger demand to the whole electronic industry. Furthermore, benefit by the lower price, blue-ray products

begin to get attention from consumers, and if they can be accepted and used, 3C market will be successfully expanded. Network industry will continue to grow and get less impact by the economic slowdown due to continual network infrastructure investment in emerging country, network equipment replacement by broadband market updates for telecommunication operators, and new technology development in wireless network industry. Last but not least, with the growing applications on cars in China, smart architecture, medical field, industrial control, and military, there is no doubt that the electronic industry will keep growing as the economy gradually recovers.

To sum up, the Company has professional production capability, high level products R&D competence, and business management and industrial trend forecast ability. Though this financial tsunami struck the electronic industry, future demand for electronics will continue to increase finally; therefore, the Company still has the ability of profitable growth.

5.2.1.4 Core competence

(1) Passive components – capacitor

Aside from most domestic competitors, Holy Stone focuses on high capacitance, high voltage, and customized capacitors manufacture. We led our competitors in high quality capacitors development and powder technology, and also acquired the common criteria. In the future, we will continue to develop high margin niche products and raise the weight of military, industrial, and medical application products to keep profitability. Furthermore, we will also take advantage of the lower cost to compete with European, American and Japanese companies and expand our market share.

(2) Active components – integrated circuit

The Company's IC products are mainly applied to wireless communication and digital image. We are the distributor of many renowned semiconductor corporations and we also offer system solutions to customers. Although it seems there is a recession in semiconductor industry in 2009, the Company is able to protect competence with the growing demand for mobile phone in China, the broadening application of broadband internet, and the trend of expanding wireless internet infrastructure to stimulate economy among global government.

(3) System & Modules – MCU

The Company's System & Module products are mainly applied to markets such as automobile, wireless communication, home appliances, medical electronics, and industrial control. With the digitization of automobile, there has been stably growing demand for MCU in recent years. Although the automotive electronics market was sluggish due to global recession, the policy of increasing domestic demand made by Chinese authorities is expected to drive MCU needs. In addition, since the technology of short distance wireless communication can be applied to home appliances, smart architecture, and others, it also has the growing potential in the future.

(4) Others – key components

The applications of key components include computer electronics; such as, battery and blue-ray combo, and consumer electronics. Since most of newly shipped notebooks are equipped with blu-ray combo and the irreplaceable role key components play in production, the Company is able to keep its competitive advantage.

5.2.1.5 Advantages and disadvantages of future prospects and policy of response

(1) Advantages

- A. Penetrative sales channels built by many years investment and flawless promotion services.
- B. Possessed with the technologies of developing high voltage and high capacitance capacitors.
- C. Expanding components agency line of communication, multimedia, and peripheral, and investing in systems R&D, establishing a variety of business development.

(2) Disadvantages and policy of response

A. Major materials rely on importing

Reaction policy:

- (A) Investing in upstream raw materials development, and communicating with overseas factory with the expectation of possessing powder measurement and improvement abilities as well as MLCC design ability.
- (B) Developing more suppliers and keeping good relationship with present suppliers in order to reduce risks of lacking raw materials.

B. The supply-over-demand pressure in future market from gradually severe market competition

Reaction policy:

- (A) Producing high level and high unit price products to extend new application.
- (B) Selling competitive products, developing new agency line, and offering solutions in order to make business steady and sales various.

C. Inventory pressure formed easily because of a great variation in the market.

Reaction policy:

Aside from computer electronic products, communication electronic products, and consumer electronic products, increasing new customers by adding industrial electronics and automotive electronics customers into target.

5.2.2. Application of Major Products and its Production Process

5.2.2.1 Major products and its application

Capacitors are basic components to 4C electronics. In the computer electronic industry, capacitors are applied to motherboard, VCG cards, sound cards, CD/DVD ROM, and so on. In the communication electronics industry, they are applied to mobile phone, fax machine, digital internet service, modem, and so on. Furthermore, in the consumer electronics industry, they are applied to video camera, CD audio, optical disk driver, and so on. Finally, in the photonics industry, they are mainly applied to LCD PANEL.

5.2.2.2 Production process

Surface-mounted MLCC

Raw materials ⇨ mixing ⇨ ball milling ⇨ Paste molding ⇨ thin strip casting ⇨ inner electrode layers ⇨ precision cutting ⇨ degreasing ⇨ sintering ⇨ rounding ⇨ outer electrode coating ⇨ electroplating ⇨ electric testing ⇨ appearance inspection ⇨ packaging

5.2.3. Suppliers of Major Materials

In order to make sure the steady supply of electronic components, the Company not only keeps good relationship with present vendors but also develops new vendors positively to increase supply source and cut down the cost. Suppliers of major raw materials are as follows:

Type of Major Products	Supplier Name
Capacitor	Hitachi
Integrated Circuit	Microchip、Skyworks
Inner Electrode	FERRO、SHOEI
Silver-palladium and Metal Powder	CERMET、FWH
Electronic Components	PANASONIC

5.2.4. Major Customers and Suppliers List 2007-2008

5.2.4.1 Major customers list

The Company's major customers are Taiwan-based large scale electronic factories, and there is no customer whose percentage of net sales excesses 10% in 2007 and 2008.

5.2.4.2 Major suppliers list

Unit: NT\$ thousand/%

Item	2007				2008			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	A	2,512,769	24.72	None	A	2,877,753	22.35	None
2	D	1,564,160	15.39	None	D	2,139,264	16.61	None
3	C	1,314,092	12.93	None	B	1,189,631	9.24	None
	Others	4,772,313	46.96	—	Others	6,670,093	51.80	—
	Total	10,163,334	100.00	—	Total	12,876,741	100.00	—

5.2.5. Production Quantity & Value Table 2007-2008

Unit: KPCS/NT\$ thousand

Year Items	2007			2008		
	Capacity	Production Quality	Production Value	Capacity	Production Quality	Production Value
Capacitor	12,000,000	9,719,118	2,560,527	16,000,000	14,011,019	2,098,541

5.2.6. Sales Quantity & Value Table 2007-2008

Unit: KPCS/NT\$ thousand

Year QTY&Amount Items	2007				2008			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Passive Components	4,522,947	1,319,178	6,689,979	3,696,804	3,858,336	975,336	8,395,978	3,189,162
Active Components	53,213	664,669	394,039	2,816,310	26,935	426,680	387,683	2,859,441
System & Modules	37,760	1,020,995	57,322	1,501,305	33,399	943,515	62,140	1,516,166
Others	19,444	349,056	91,022	1,797,327	24,597	81,992	114,143	2,785,162
Total	4,633,364	3,353,898	7,232,362	9,811,746	3,943,267	2,427,523	8,959,944	10,349,931

5.3. Employee Analysis

Year	2007	2008	As of April 30, 2009	
Number of Employees	Direct Employees	395	321	309
	Indirect Employees	567	459	444
	Total	962	780	753
Average Age	32.12	33.24	33.74	
Average Years of Employment	3.33	4.60	5.01	
Level of Education (%)	Ph.D.	0.42	0.64	0.53
	Master's Degree	5.92	5.90	5.44
	Bachelor's & Associate Degree	52.85	53.72	54.98
	Senior High School	38.42	37.31	36.39
	Others	2.39	2.43	2.66

5.4. Environmental Awareness

As of the date of this Annual Report, the total amount of loss and discipline action from environment pollution was as follows, along with the description of future reaction policy and available expenditure.

5.4.1. As of the Date of This Annual Report, There is No Loss and Discipline Action from Environment Pollution.

5.4.2. In order to Exercise the Environmental Protection and Raise the Environmental Quality, the Company Entrusts a Cleaning Transport Company to Dispose Waste and Purchases Some Anti-polluted Equipment to Clean Waste Water and Exhaust Gas.

5.4.2.1 Recently purchased anti-polluted equipment

Unit: NT\$ Dec. 31, 2008

Equipment	Amount	Date of Acquisition	Investment Cost	Unamortized Balance	Usage and Expected benefits
Air Pollution Control Equipment	1	2005-2008	4,973,381	4,188,828	Making the exhaust gas to achieve the standards
Water Pollution Disposal Equipment	1	2005-2008	8,528,000	6,306,876	Making the waste water to achieve the standards

5.4.2.2 The environmental protection policies

(1) Disposal of waste

The Company entrusts a waste disposal organization to clean waste and dirt, so there is no environment pollution made by the Company.

(2) Disposal of polluted water

The Company not only does a periodic examination on the disposal of polluted water but also purchases new water disposal systems and acquires the "Discharge Permit."

(3) Disposal of exhaust gas

The Company has complete emission control systems. With the expansion on the production equipment, the Company also strengthens its pollution prevention projects and acquires the "Stationary Pollution Source Installation Permit."

5.4.2.3 The Company pays much attention to environmental protection. It not only hires designated people to supervise, but also improves its software and hardware facilities. Presently, the Company is in conformity to the government regulation; therefore, it makes limited influence on the Company's net income and competitive capability.

5.4.2.4 Expenditure on the environmental protection in the next three years

Unit: NT\$

Item	The Content of Expenditure	Estimated Funds in Need
1	Exhaust gas and polluted water disposal equipment	\$ 18,000,000
2	Testing fees for exhaust gas	600,000
3	Testing fees for polluted water emission	60,000
4	Disposal fees for polluted water	4,710,000
5	Disposal fees for waste	10,621,800
6	Environmental testing fees	900,000
7	Replacement fees for consumptive materials from exhaust gas	13,000,000
		\$ 47,891,800

5.5. Labor and Management Relationship

5.5.1. Employee Benefit Plans, Continuing Education, Training, Retirement Systems, and the Status of Their Implementation, and the Status of Labor-management Agreements and Measures for Preserving Employees' Rights and Interests:

5.5.1.1 Employee's welfare package: The Company provides the following benefits: health insurance, labor insurance, group insurance, health examination, pension reserve, arrearage reserve, and so on.

5.5.1.2 Employee Welfare Committee: Providing wedding/funeral/bearing/hospitalization and celebration financial aid. Holding art and cultural seminars and employee outings to solid employee relationship and relax employees' body and mind.

5.5.1.3 Education and training: The Company develops an active learning environment for employees, and arranges a series of training programs; such as, new employee training, management training, professional training, and language training. The Company also provides learning resource; such as, books and magazines, and holds educational activities to help employees strengthen their working capability.

5.5.1.4 Retirement plan: In order to provide employees with satisfactory working environment, The Company's retirement policy is in accordance with the provisions in the Labor Standards Law and Labor Pension Act of the Republic of China. The Company also distributes pension funds to Bank of Taiwan or employee's personal pension fund accounts.

5.5.1.5 Agreement between labor and management: The achievement of enterprise's goal relies on each employee's effort. Under such circumstances, labors and management are able to exercise their talents. Consequently, the relationship between labor and management plays an important role for the Company all the time. As of today, there is no dispute between labors and management.

5.5.2. As of Today, the Loss Caused by the Disputes between Labors and Management: None.

5.6. Major Contracts

March 31, 2009

Contract Classification	Company Name	Contract Duration	Main Contents	Term Limits
Distributorship and Agent Agreement	HITACHI	04.01.2008-03.31.2010	Capacitor	None
Distributorship and Agent Agreement	SKYWORKS	02.07.2005-09.30.2010	IC	None
Distributorship and Agent Agreement	DELTA	01.01.2009-12.31.2009	Cooling fan	Sales only in Taiwan
Distributorship and Agent Agreement	MICROCHIP	04.01.2008-03.31.2009	IC	None

6. Financial Highlights

6.1. Condensed Balance Sheet and Condensed Income Statement

6.1.1. Condensed Balance Sheet

Unit: NT\$ thousands

Year Item		Financial Information from 2005 to 2009 (Note 1)					As of March 31, 2009 (Note 1)
		2004	2005	2006	2007	2008	
Current assets		6,208,473	5,825,530	6,246,764	6,652,362	6,220,731	5,374,040
Funds and long-term investments		744,216	1,049,122	1,323,272	1,337,425	2,154,860	2,460,277
Property, plant and equipment		1,517,272	1,747,776	1,836,097	2,065,992	2,344,605	2,386,413
Other assets		53,529	34,563	21,611	6,855	7,028	6,861
Total assets		8,523,490	8,656,991	9,427,744	10,062,634	10,727,224	10,277,591
Current liabilities	Before distribution	2,367,482	2,110,932	2,633,161	2,525,342	2,270,835	1,478,532
	After distribution	2,809,399	2,711,047	3,410,424	3,400,895	(Note 2)	(Note 2)
Long-term liabilities		1,736,379	1,073,552	-	-	1,137,250	1,124,500
Other liabilities		14,045	14,021	9,931	6,714	13,012	13,014
Total liabilities	Before distribution	4,117,906	3,198,505	2,643,092	2,532,056	3,421,097	2,616,046
	After distribution	4,559,823	3,798,620	3,420,356	3,407,609	(Note 2)	(Note 2)
Capital stock		1,828,058	2,109,775	2,459,742	2,703,274	2,806,456	2,806,456
Capital surplus		1,649,703	2,056,738	2,546,528	2,747,093	2,741,791	2,740,717
Retained earnings	Before distribution	1,007,083	1,366,082	1,732,755	2,005,372	1,720,779	1,906,983
	After distribution	422,923	593,485	816,364	1,046,281	(Note 2)	(Note 2)
Unrealized gain or loss on financial instruments		-	-	56,808	83,013	(29,569)	57,782
Cumulative translation adjustments		(5,444)	(293)	2,776	6,394	73,076	106,013
Treasury stock		(73,816)	(73,816)	(13,957)	(14,568)	-	-
Total stockholders' equity	Before distribution	4,405,584	5,458,486	6,784,652	7,530,578	7,306,127	7,611,545
	After distribution	3,963,667	4,858,371	6,007,388	6,655,023	(Note 2)	(Note 2)

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2009 financial statements have been audited by CPA.

Note 2: General shareholders meeting has not been summoned up to the report printed date; therefore, the amount after adjustment is not disclosed.

6.1.2. Condensed Income Statement

Unit: NT\$ thousands

Item	Financial Information from 2004 to 2008 (Note 1)					As of March 31, 2009 (Note 1)
	2004	2005	2006	2007	2008	
Net sales	10,038,766	11,258,480	11,976,282	13,165,645	12,777,454	2,214,015
Gross profit	1,448,849	1,762,952	2,039,439	2,158,679	1,583,713	286,067
Operating income	1,015,879	1,240,827	1,445,871	1,495,071	837,474	148,924
Non-operating income and gains	28,177	63,540	86,362	118,497	251,286	95,228
Non-operating expenses and losses	142,705	100,816	116,473	139,210	274,416	33,652
Income before income tax from continuing operations	901,291	1,203,551	1,415,760	1,474,358	814,344	210,500
Net income from continuing operations	708,739	943,159	1,139,269	1,189,007	674,497	186,204
Income from discontinued department	-	-	-	-	-	-
Extraordinary gain or loss	-	-	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-	-	-
Net income	708,739	943,159	1,139,269	1,189,007	674,497	186,204
Earnings per share (NT\$) (Note 2)	4.07	4.74	4.74	4.45	2.41	0.66

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2009 financial statements have been audited by CPA.

Note 2: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

6.1.3. Auditors' Opinions from 2004 to 2008

Year	Accounting Firm	CPA	Audit Opinion
2004	KPMG	Ching-Sung Wang and Chia-Hsin Chang	An Unqualified Opinion
2005	KPMG	Heng-Sheng Lin and Sung-Chi Tsai	An Unqualified Opinion
2006	KPMG	Heng-Sheng Lin and Sung-Chi Tsai	An Unqualified Opinion
2007	KPMG	Ching-Sung Wang and Heng-Sheng Lin	An Unqualified Opinion
2008	KPMG	Ching-Sung Wang and Chia-Hsin Chang	An Unqualified Opinion

6.2. Financial Analysis

Item (Note 2)		Financial Analysis from 2004 to 2008 (Note 1)					As of March 31, 2009 (Note 1)	
		2004	2005	2006	2007	2008		
Capital Structure Analysis (%)	Debt Ratio	48.31	36.95	29.52	25.16	31.89	25.58	
	Long-term Fund to Fixed Assets Ratio	404.80	373.73	369.52	364.50	360.12	366.07	
Liquidity Analysis %	Current ratio	262.24	290.18	227.61	263.42	273.94	363.47	
	Quick Ratio	191.03	235.16	174.14	197.24	200.23	281.74	
	Times Interest Earned	26.77	25.30	41.30	37.52	22.35	41.19	
Operating Performance Analysis	Average Collection Turnover (Times)	3.99	3.78	3.72	3.89	4.02	3.42	
	Days Sales Outstanding	91	97	98	94	91	107	
	Average Inventory Turnover (Times)	7.95	7.58	7.49	6.99	6.78	5.38	
	Average Payment Turnover (Times)	9.95	8.76	8.20	9.53	10.34	9.09	
	Average Inventory Turnover Days	46	48	49	52	54	68	
	Fixed Asset Turnover (Times)	7.07	6.90	6.68	6.75	5.79	3.74	
	Total Asset Turnover (Times)	1.18	1.30	1.24	1.31	1.19	0.87	
Profitability Analysis	Return on Total Assets (%)	10.40	11.41	12.77	12.54	6.79	7.29	
	Return on Equity (%)	18.14	19.12	18.61	16.61	9.09	9.99	
	To Paid-in Capital Ratio (%)	Operating Income	55.57	58.81	58.78	55.31	29.84	21.23
		Income before income tax	49.30	57.05	57.56	54.54	29.02	30.00
	Net Margin (%)	7.06	8.37	9.51	9.03	5.28	8.41	
Earnings Per Share (NT\$) (2)	4.07	4.74	4.74	4.45	2.41	0.66		
Cash Flow(%)	Cash Flow Ratio (%)	28.75	50.35	48.18	46.81	51.54	57.06	
	Cash Flow Adequacy Ratio (%)	10.24	66.85	85.22	91.05	94.56	131.87	
	Cash Flow Reinvestment Ratio (%)	6.53	11.53	10.66	5.38	3.77	8.77	
Leverage	Operating Leverage	9.46	1.01	1.00	1.01	0.99	0.94	
	Financial Leverage	1.04	1.04	1.02	1.03	1.05	1.04	

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2009 financial statements have been audited by CPA.

Note 2: Based on current weighted average outstanding shares, and retroactively adjusted to the increased weighted outstanding shares from capitalization of retained earnings and capital surplus.

Note 3: Glossary:

1. Capital Structure Analysis

(1) Debt Ratio = Total Liabilities / Total Assets

(2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current liabilities

(3) Times Interest Earned = Earnings before Interest and Tax / Interest Expenses]

3. Operating Performance Analysis

(1) Average Collection Turnover = Net Sales / Average Trade Receivables

(2) Days Sales Outstanding = 365 / Average Collection Turnover

(3) Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Average Payment Turnover = Cost of Sales / Average Trade Payables

(5) Average Inventory Turnover Days = 365 / Average Inventory Turnover

(6) Fixed Assets Turnover = Net Sales / Net Fixed Assets

(7) Total Assets Turnover = Net Sales / Total Assets

4. Profitability Analysis

(1) Returns on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets

(2) Returns on Equity = Net Income / Average Shareholders' Equity

(3) Net Margin = Net Income / Net Sales

(4) Earnings Per Share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding (Note 3)

5. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities

(2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend

(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Investments + Other Assets + Working Capital (Note 4))

6. Leverage:

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations (Note 5)

(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

Note 4: Special notices of the calculating formula for EPS:

(1) Based on weighted average shares in common stock, not on shares issued at the end of year.

(2) For corporate with cash capital increase and treasury stock trading, the weighted average shares calculation should consider outstanding period.

(3) For corporate with capitalization of profits and capital surplus, the annual and semiannual EPS should be adjusted with ratio of capital increase, but period of capital increase issued needn't consider.

(4) If it is unconvertible accumulated preferred stock, the annual dividends should be subtracted from net income or added to net loss. If it is unaccumulated preferred stock, dividends should also be subtracted from net income when there is positive net income, but needn't be adjusted when there is net loss.

Note 5: Special notices of cash flow analysis measurements:

(1) Net cash provided by operating activities is cash inflow provided by operating activities in Statement of Cash Flow.

(2) Capital Expenditure is cash outflow provided by capital investment yearly.

(3) Inventory additions are taken into account only when the balance in the end is more than that in the beginning, and it will be zero when there is a decrease in inventory.

(4) Cash dividends include those on common stock and preferred stock.

(5) Gross fixed assets is total fixed assets before the subtract of accumulated depreciation.

Note 6: Issuers should distinguish every operating costs and operating expenses to the fixed-property or the varied-property, and maintain their rationality and consistency if there is any estimation or subjective judgement.

6.3. Supervisors' Report

Holy Stone Enterprise Co., Ltd. Supervisors' Report

The Board of Directors has prepared the Company's 2008 Business Report, Financial Statements, and proposal for allocation of profits. Both CPA Chin-Sun Wang and Chia-Hsin Chang at the CPA firm of KPMG were retained to audit Holy Stone's Financial Statements and have issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the undersigned, the supervisors of Holy Stone Enterprise Company Limited. According to Article 219 of the Company Law, we hereby submit this report.

Holy Stone's Annual Shareholders' Meeting, 2009

Supervisor: Tang-Ming Wu

Chung-Yi Yang

Ken-Yi Cheng

April 8, 2009

- 6.4. Financial Report of 2008:** Please refers to P.64 to P.106 in this report.
- 6.5. Consolidated Financial Report of 2008:** Please refers to P.107 to P.112 in this report.
- 6.6. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2008 and as of the date of this Annual Report:** None.

7. Financial Status and Operating Results Analysis and Risk Events

7.1. Financial Status

Financial Status Analysis Table

Unit: NT\$ thousands

Item	Year	2008	2007	Difference	
				Amount	%
Current asset		6,220,731	6,652,362	(431,631)	(6.49)
Long-term investment		2,154,860	1,337,425	817,435	61.12
Property, plant and equipment		2,344,605	2,065,992	278,613	13.49
Other assets		7,028	6,855	173	2.52
Total assets		10,727,224	10,062,634	664,590	6.60
Current liabilities		2,270,835	2,525,342	(254,507)	(10.08)
Long-term liabilities		1,137,250	-	1,137,250	-
Other liabilities		13,012	6,714	6,298	93.80
Total liabilities		3,421,097	2,532,056	889,041	35.11
Capital stock		2,806,456	2,703,274	103,182	3.82
Capital surplus		2,741,791	2,747,093	(5,302)	(0.19)
Retained earnings		1,720,779	2,005,372	(284,593)	(14.19)
Unrealized gain or loss on financial instruments		(29,569)	83,013	(112,582)	(135.62)
Cumulative translation adjustments		73,076	6,394	66,682	1042.88
Treasury stock		-	(14,568)	14,568	(100.00)
Total shareholders' equity		7,306,127	7,530,578	(224,451)	(2.98)
<p>Analysis of significant changes in assets, liabilities and stockholders' equity accounts (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000) :</p> <p>(1) An increase of NT\$817,435 thousand in long-term investment: Increase long-term investment under Equity Method this year and earnings growth in investees under Equity Method.</p> <p>(2) An increase of NT\$1,137,250 thousand in long-term liabilities: Increase long-term debt.</p> <p>(3) A decrease of NT\$112,582 thousand in unrealized gains on financial instrument: Available-for-sale financial assets accounted by the mark-to-market method.</p> <p>(4) An increase of NT\$66,682 thousand in cumulative translation adjustments: Due to strong volatility of foreign currency exchange rate in the subsidiaries.</p> <p>(5) A decrease of NT\$14,568 thousand in treasury stock: No common stock buyback in 2008.</p>					

7.2. Operating Results

7.2.1. Operating Results Analysis Table

Unit: NT\$ thousands

Item \ Year	2008	2007	Difference	%
Net sales	12,777,454	13,165,645	(388,191)	(2.95)
Cost of goods sold	<u>(11,193,741)</u>	<u>(11,006,966)</u>	186,775	1.70
Gross profit	1,583,713	2,158,679	(574,966)	(26.64)
Unrealized gross profit from affiliates	<u>11,528</u>	<u>(9,612)</u>	21,140	(219.93)
Realized gross profit	1,595,241	2,149,067	(553,826)	(25.77)
Operating expenses	<u>(757,767)</u>	<u>(653,996)</u>	103,771	15.87
Operating income	837,474	1,495,071	(657,597)	(43.98)
Non-operating income and gains	251,286	118,497	132,789	112.06
Non-operating expenses and losses	<u>(274,416)</u>	<u>(139,210)</u>	135,206	97.12
Income before income tax from continuing operations	814,344	1,474,358	(660,014)	(44.77)
Income tax expenses	<u>(139,847)</u>	<u>(285,351)</u>	145,504	(50.99)
Net Income from continuing operations	<u>674,497</u>	<u>1,189,007</u>	(514,510)	(43.27)

Note 1: Analysis of deviation in 2007 and 2008:

- (1) The decrease of gross profit, operating income, income before income tax, and net income: Resulted from the decrease of sales value due to the recession in electronic industry.
- (2) An increase of NT\$21,140 thousand in unrealized gross profit from affiliates: Due to a decrease in inventories on downstream transaction with subsidiaries.
- (3) An increase of NT\$132,789 thousand in non-operating income and gains: Earnings growth in long-term investment recognized under equity method.
- (4) An increase of NT\$135,206 thousand in non-operating expenses and losses: Recognitions of losses on inventory valuation and impairment loss.

Note 2: Probable impact on corporate's financial business: No significant impacts.

Note 3: Sales quantity forecast and related information : Not applicable.

7.2.2. Analysis of Gross Profit

Unit: NT\$ thousands

Item	Difference	Reasons of the difference			
		Price	Cost	Sales Portfolio	Quantity
Gross Propfit	(574,966)	(1,153,517)	432,896	(40,349)	186,004
Instruction		(1)	(2)	(3)	(4)

- (1) Difference in price: The disadvantage is resulted from a slump in ASP due to the economic recession.
- (2) Difference in cost: The advantage is resulted from the control of cost this year.
- (3) Difference in sales portfolio: The disadvantage is resulted from the adjustment in sales portfolio.
- (4) Difference in quantity: The advantage is resulted from an increase of sales quantity this year.

7.3. Cash Flow

Analysis of Cash Flow

Unit: NT\$ thousands

Beginning cash balance	Net cash provided by operating activities in 2008	Net cash outflow in 2008	Ending cash balance	Remedy for Cash Shortfall															
				Investment Plan	Financing Plan														
1,043,679	1,170,334	(1,106,061)	1,107,952	-	-														
<p>1. Analysis of cash flow:</p> <p>(1) Net cash provided by operating activities: It is resulted from decreases in notes and accounts receivable.</p> <p>(2) Net cash outflow in 2008: It is mainly resulted from net cash provided by investing and financing activities. Net cash outflows are summarized as follows.</p> <p>a. Net cash provided by investing activities: A great net cash outflow in investing activities is resulted from the acquisition of machinery and equipment and the increase of long-term investment.</p> <p>b. Net cash provided by financing activities: Net cash inflow in financing activities is resulted from the increase of long-term debt.</p> <p>2. Analysis of liquidity:</p> <p>A decrease of NT\$11,852 thousand in net cash provided by operating activities in 2008 on a year-over-year basis.</p> <p>Current ratio: 51.54%. Cash adequacy ratio: 94.56%. Cash reinvestment ratio: 3.77%.</p> <p>3. Cash flow projection for next year:</p>																			
<table border="1"> <thead> <tr> <th rowspan="2">Beginning cash balance</th> <th rowspan="2">Expected net cash Provided by operating activities</th> <th rowspan="2">Expected net cash outflow of the year</th> <th rowspan="2">Expected ending cash balance</th> <th colspan="2">Remedy for Cash Shortfall</th> </tr> <tr> <th>Investment Plan</th> <th>Investment Plan</th> </tr> </thead> <tbody> <tr> <td>1,107,952</td> <td>846,922</td> <td>(861,608)</td> <td>1,093,266</td> <td>-</td> <td>-</td> </tr> </tbody> </table>						Beginning cash balance	Expected net cash Provided by operating activities	Expected net cash outflow of the year	Expected ending cash balance	Remedy for Cash Shortfall		Investment Plan	Investment Plan	1,107,952	846,922	(861,608)	1,093,266	-	-
Beginning cash balance	Expected net cash Provided by operating activities	Expected net cash outflow of the year	Expected ending cash balance	Remedy for Cash Shortfall															
				Investment Plan	Investment Plan														
1,107,952	846,922	(861,608)	1,093,266	-	-														

7.4. Major Capital Expenditure

7.4.1. Major Capital Expenditure and Sources of Funding

Unit: NT\$ thousands

Plan	Actual or Planned Source of Capital	Actual or Planned Finished Date	Total Amount	Status of Actual or Projected Use of Capital						
				2004	2005	2006	2007	2008	2009	2010
Land in Letzer Industrial Park Rent and Factory Construction	Cash flow generated from operation or loans from bank	2009.06	341,800	-	-	-	-	105,631	236,169	-

7.4.2. Expected Future Benefit

Expanding factory and purchasing machinery are expected to make the product line complete and increase sales. Sales quantity, sales value and gross profit of the Company are expected to have the following increases:

Unit: NT\$ thousands

Year	Item	Output (KPCS)	Sales Quantity (KPCS)	Sales Value	Gross Profit
2009	MLCC	3,105,000	3,105,000	1,095,000	164,250
2010	MLCC	3,415,000	3,415,000	1,205,000	180,750
2011	MLCC	3,757,000	3,757,000	1,330,000	199,500
2012	MLCC	4,133,000	4,133,000	1,465,000	219,750
2013	MLCC	4,550,000	4,550,000	1,613,000	241,950

7.5. Investments Exceeding 5% of Company's Paid-in Capital in 2008

Item	Amount (NT\$ thousands)	Policy	Root Cause of Profit or Loss	Improvement Action	Investment Plans
Holy Stone Holdings Co., Ltd.	NT\$17,527	Invested to enter into other industry.	The investee companies have started to make profits.	Inforcing management	Assessing the necessity of increasing investment considering operating scale.
RONG JUAN INVESTMENT CO., LTD.	NT\$53,352	Invested to enter into other industry.	The investee companies have started to make profits.	Inforcing management	Assessing the necessity of increasing investment considering operating scale.

Note: The investment amount of the year exceeds 5% of the capital collected.

7.6. Risk Management

7.6.1. Impact Associated with Interest Rate Fluctuation, Foreign Exchange Volatility, and Inflation on Net Income of the Corporate

Holy Stone's interest expense and loss on foreign exchange in 2008:

Unit: NT\$ thousands

Item	2008
Interest Expense	38,140
Gain on Foreign Exchange	61,873

Source: Financial statement of 2008 has been reviewed by CPA

Due to low interest rate in the money market, the Company will evaluate its borrowing interest rates frequently and keep close contact with banks to acquire lower interest rate. The interest expense was only 0.30% of net sales in 2008; therefore, there is limited influence on interest rate fluctuation and the Company's net income. Holy Stone hedges its foreign exchange exposure mainly through hedge-oriented derivatives. The Company will pay close attention to changes in net income, caused by interest rate fluctuation, foreign exchange volatility and inflation, and will adopt the following measures:

7.6.1.1 Assigning professional people to manage foreign exchange risk.

7.6.1.2 Strategies of foreign exchange risk hedge:

- (1) Forecasting foreign exchange rate trend and purchasing or selling foreign currencies in advance by currency forward contracts.
- (2) Increasing strong currencies held in the assets account (accounts receivable and bank deposits) and weak currencies held in the liabilities account (accounts payable and bank debt payable).
- (3) Purchasing department purchases from suppliers on a weak currency basis.
- (4) Consulting foreign exchange rate hedging strategies irregularly with international financial institutions.
- (5) Application of several real time quotation systems for foreign exchange rate; such as, SysJust and XQ.

7.6.2. Risks Associated with High-risk/High-leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

7.6.2.1 The Company made no high-risk or high-leveraged financial investments during 2008 and the Company's Endorsement & Guarantee was NT\$20,000 thousand on December 31, 2008.

7.6.2.2 Making derivatives transactions by contracting foreign exchange options and selling currency forward contracts to hedge foreign exchange rate risk on bonds payable.

7.6.2.3 Relevant policies execution based on cautious evaluation, periodical report and monthly control, and the regulation of "Procedures for Acquisition or Disposal of Assets", "Procedures for Lending Funds to Other Parties", and "Procedures for Endorsement and Guarantee".

7.6.3. Future R&D Plans and Expected R&D Spending

With the growth of industry and market demand, the Company continues to invest in R&D of products and production process to satisfy customers' requirement and to strengthen corporate competency.

7.6.4. Risks Associated with Changes in the Political and Regulatory Environment

There was limited impact associated with changes in the political and regulatory environment on the Company in 2008. The Company will continue to acquire relevant information and make essential measures in time to satisfy corporate's operating demand.

7.6.5. Impact on corporate finance associated with changes in technology

The Company will keep high sensitive to industrial technology changes to reduce market risk and to meet customers' demand.

7.6.6. Changes in Corporate Image and Impact on Company's Crisis Management

The Company holds the principle of integrity and bases on steady management to strengthen corporate competency and pursue enterprise sustainable development; therefore, there was no such impact on the Company.

7.6.7. Risks Associated with Mergers and Acquisitions

In 2008 and as of the date of this Annual Report, the Company had no such risk.

7.6.8. Risks Associated with Capacity Expansion

Please refer to this Annual Report P.57 to get the information of expected benefits resulted from capacity expansion. In 2008, there was no such risk for the Company.

7.6.9. Risks Associated with Purchase or Sales Concentration

The Company Stone procures raw materials and commodities from multiple vendors to ensure sufficient supply and to mitigate purchase concentration risk. In 2008, there was no customer taking over 10% of the Company's net sales.

7.6.10. Potential Impact and Risks Associated with Sales of Significant Numbers of Shares by Holy Stone's Directors, and Major Shareholders Who Own 10% or More of Holy Stone's Total Outstanding Shares

In 2008 and as of the date of this Annual Report, the Company had no such risk.

7.6.11. Risks Associated with Change in Management

In 2008 and as of the date of this Annual Report, the Company had no such risk.

7.6.12. Risks Associated with Litigations

There were no directors, supervisors, president, managers, shareholders with 10% shareholdings or more, and affiliates involving in any litigations during 2007-2008, and as of the date of this Annual Report.

7.6.13. Other Material Risks

During 2008 and as of the date of this Annual Report, the Company's management is not aware of any other risk event with a potentially material impact on the Company.

7.7. Other vital items: None.

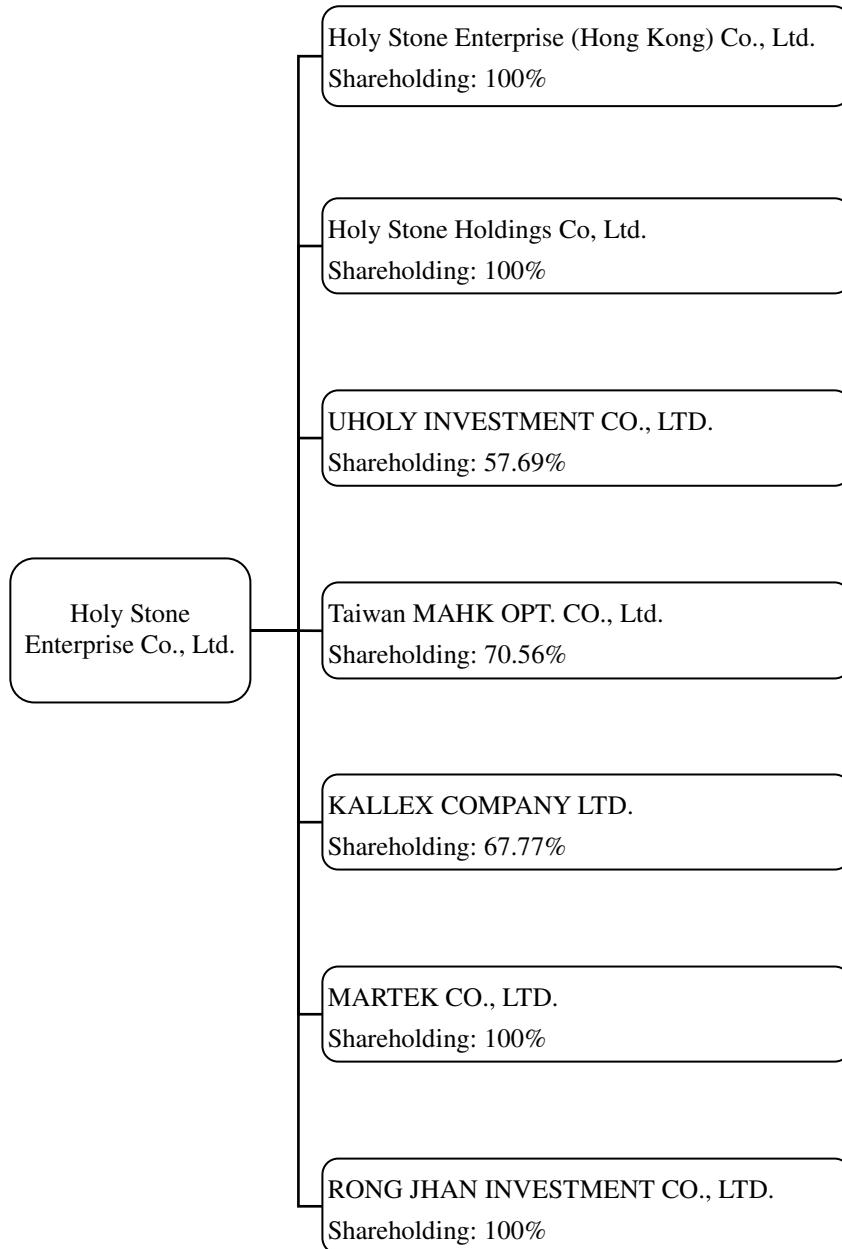
8. Special Notes

8.1. Affiliates

8.1.1. Affiliates Consolidated Operating Report

8.1.1.1 Holy Stone affiliated companies chart

As of 12/31/2008



8.1.1.2 Holy Stone affiliated companies

Unit: Dollars

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
Holy Stone Enterprise (Hong Kong) Co., Ltd.	1998.12	Unit C, 7/F, Niche Centre, 14 Wang Tai Road, Kowloon Bay, Hong Kong	HKD\$ 11,500,000	MLCC, MLCV, Electronic components business
Holy Stone Holdings Co., Ltd.	2000.07	LEVEL 2, NIA MALL, VAEA STREET, APIA, SAMOA.	USD\$ 26,976,000	Investment activities
UHOLY INVESTMENT CO., LTD	2000.07	5F.-3, No.83, Sec. 1, Nankan Rd., Lujhu Township, Taoyuan County, Taiwan	NTD\$ 390,000,000	Investment activities
Taiwan MAHK OPT. CO., LTD.	1992.12	No.90, Dongcheng Rd., Dongshan Township, Yilan County, Taiwan	NTD\$ 25,000,000	Manufacturing and marketing of small camera and its parts, optical machinery, and precise machinery
KALLEX COMPANY LTD.	1996.10	No.20, Lane 22, Gaocing Rd., Yangmei Township, Taoyuan County, Taiwan	NTD\$ 99,200,000	Manufacturing of instruments, ceramics and ceramics product. Precision instrument wholesaling and international trading
MARTEK CO., LTD.	2008.02	6F.-1, No. 17, Ln. 91, Sec. 1, Neihu District, Taipei City, Taiwan	NTD\$ 20,000,000	Wholesaling of electronic appliances, precision instruments, communication equipment, and electronic materials
RONG JHAN INVESTMENT CO., LTD.	2008.02	1F., No.56, Sec. 2, Huanshan Rd., Neihu District, Taipei City, Taiwan	NTD\$ 200,000,000	Investment activities

8.1.1.3 Common shareholders of Holy Stone and its subsidiaries or its affiliates with actual or deemed control: Not applicable.

8.1.1.4 Business scope of Holy Stone and its affiliated companies

Business scope of Holy Stone's affiliated companies involves manufacturing and marketing of electronic components; investment activities; manufacturing and marketing of small camera and its parts, optical machinery, and precise machinery; precision instrument wholesaling and international trading.

8.1.1.5 Rosters of directors, supervisors, and presidents of Holy Stone's affiliated companies

Unit: dollars/shares/% as of 12/31/2008

Company	Title	Name	Shareholding	
			Investment Amount / Shares	Investment Holding %
Holy Stone Enterprise (Hong Kong) Co., Ltd.	Director	Representative of Holy Stone: Jing-Rong Tang and Yu-Min Wu	HKD\$11,500,000/11,500,000	100%
Holy Stone Holdings Co., Ltd.	Director	Representative of Holy Stone: Jing-Rong Tang, Yu-Min Wu and Fang-Ming Lo	USD\$26,976,000/26,976,000	100%
UHOLY INVESTMENT CO., LTD	Director	Hsin-Yi Yang	5,000,000/500,000	1.28%
	Director	Representative of Holy Stone: Fang-Ming Lo and Chun-Ping Ma	225,000,000/22,500,000	57.69%
	Supervisor	Representative of LungHsin INVESTMENT CO., LTD.: Chin-Hsiu Liao	20,000,000/2,000,000	5.13%

Company	Title	Name	Shareholding	
			Investment Amount / Shares	Investment Holding %
Taiwan MAHK OPT. CO., LTD.	Director	Representative of Holy Stone: Jing-Rong Tang and Chun-Ping Ma	17,639,600/176,396	70.56%
	Director	Representative of MAHK CO., LTD.: Enomoto Keiji	736,040/73,604	29.44%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	17,639,600/176,396	70.56%
KALLEX COMPANY LTD.	Director	Representative of Holy Stone: Jing-Rong Tang, Jung-Li Huang and Fang-Ming Lo	71,950,000/6,723,000	67.77%
	Director	Po-Wen Lin	7,140,000/714,000	7.20%
	Director	Yi-Chih Tai	3,350,000/335,000	3.38%
	Supervisor	Wei Kuang Cheng	617,500/61,750	0.62%
	Supervisor	Representative of Holy Stone: Yu-Min Wu and Ching-Hua Yang	71,950,000/6,723,000	67.77%
MARTEK CO., LTD.	Director	Representative of Holy Stone: Jen-Shing Lee, Jing-Rong Tang and Fang-Ming Lo	20,000,000/2,000,00	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	20,000,000/2,000,00	100%
RONG JHAN INVESTMENT CO., LTD.	Director	Representative of Holy Stone: Jing-Rong Tang, Fang-Ming Lo and Shih-Yun Sheng	200,000,000/20,000,00	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	200,000,000/20,000,00	100%

8.1.2. Operational Highlights of Holy Stone Affiliated Companies

Unit: NT\$ thousands

Company	Paid-in Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (Net of Tax)	EPS (NT\$) (Net of Tax)
Holy Stone Enterprise (Hong Kong) Co., Ltd.	48,680	385,867	232,531	153,337	731,382	8,041	6,667	0.58
Holy Stone Holdings Co., Ltd. (Note 2)	884,813	1,699,041	807,673	891,368	2,027,181	3,031	17,526	0.65
UHOLY INVESTMENT CO., LTD. (Note 2)	390,000	539,402	47,653	491,749	239,412	(21,468)	(59,988)	(1.54)
Taiwan MAHK OPT. CO., LTD.	25,000	27,207	2,488	24,719	17,804	(42,941)	14,474	57.89
KALLEX COMPANY LTD.	99,200	74,465	5,419	69,046	17,823	(7,200)	(6,715)	(0.65)
RONG JHAN INVESTMENT CO., LTD. (Note 2)	200,000	601,456	252,972	348,484	423,858	90,646	53,352	2.68

Note 1: Foreign exchange rate: USD(32.8) JPY(0.3636) HKD(4.233)

Note 2: Same notion of the Company's consolidated financial statements.

8.2. Private Placement Securities in 2008 and as of the Date of this Annual Report

None.

8.3. Status of Holy Stone Common Shares Acquired, Disposed of, and Held by Subsidiaries in 2008 and as of the Date of this Annual Report

None.

8.4. Other Necessary Supplement: None.

8.5. Any Events in 2008 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors and Shareholders
Holy Stone Enterprise Company Limited

We have audited the accompanying balance sheets of Holy Stone Enterprise Company Limited as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As of December 31, 2008 and 2007, the long-term equity investment amounts accounted for under equity method were NT\$1,669,365 thousand and NT\$791,583 thousand, and the related net investment gain of NT\$97,958 thousand and the related net investment loss of NT\$48,449 thousand for the year ended December 31, 2008 and 2007. As described in Note 11, the related information of investee companies recognized for certain investee company accounted for under the equity method was based on the financial statements not audited by KPMG.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holy Stone Enterprise Company Limited as of December 31, 2008 and 2007, and the results of its operations and its 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 with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

Commencing from January 1, 2008, the Company adopted Interpretation 2007-052, issued by the Accounting Research and Development Foundation of the Republic, to classify, measure, and disclose Bonuses to Employees, Directors and Supervisors. The influence on financial statement made by this change in accounting standard was discussed in Note 3.

We have also audited the accompanying schedules of significant accounts, provided for supplementary analysis, by applying the same procedures described above. In our opinion, such schedules are consistent, in all material respects, with the financial statements referred to above.

We have also audited, 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, the consolidated financial statements of Holy Stone Enterprise Company Limited and subsidiaries as of and for the years ended December 31, 2008 and 2007, and have expressed an unqualified opinion on the consolidated financial statements.

Taipei, Taiwan
Republic of China

March 2, 2009

English Translations of Financial Statements Originally Issued in Chinese
HOLY STONE ENTERPRISE COMPANY LIMITED

Balance Sheets

December 31, 2008 and 2007

(Expressed in Thousands of New Taiwan Dollars)

Assets	12.31.2008		12.31.2007		Liabilities and stockholders' equity	12.31.2008		12.31.2007	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (Notes 4.1)	\$ 1,107,952	10	1,043,679	10	Short-term loans (Notes 4.8 and 6)	\$ 656,469	6	715,386	7
Financial assets at fair value through profit or loss—current (Notes 4.2)	229,612	2	268,215	3	Notes and Accounts Payable	1,001,390	9	1,049,313	11
Notes and accounts receivable, net (Notes 4.3)	2,106,941	20	2,593,277	26	Payables to related parties (Notes 5)	36,673	-	77,146	1
Receivables from related parties (Notes 5)	838,033	8	836,416	8	Income tax payable	13,390	-	143,205	1
Other financial assets—current (Notes 4.5 and 6)	122,941	1	128,638	1	Accrued expenses and other current liabilities (Notes 5)	385,113	4	335,892	3
Inventories, net (Notes 4.4)	1,666,465	16	1,637,237	16	Current portion of bonds payable (Notes 4.10)	126,800	1	204,400	2
Prepaid expenses and other current assets (Notes 4.12)	148,787	1	144,900	2	Current portion of long-term debt (Notes 4.9)	51,000	-	-	-
Total current assets	6,220,731	58	6,652,362	66	Total current liabilities	2,270,835	20	2,525,342	25
Funds and investments:					Long-term liabilities (Notes 4.9)	1,137,250	11	-	-
Available-for-sale financial assets—noncurrent (Notes 4.2)	485,495	5	412,183	4	Other liabilities :				
Financial assets carried at cost—noncurrent (Notes 4.2)	-	-	87,583	1	Accrued pension liabilities (Notes 4.11)	12,740	-	6,442	-
Long-term equity investments under equity method (Notes 4.5)	1,669,365	16	837,659	8	Other liabilities	272	-	272	-
Total funds and investments	2,154,860	21	1,337,425	13	Total other liabilities	13,012	-	6,714	-
Property, plant and equipment (Notes 4.6, 5 and 6):					Total liabilities	3,421,097	31	2,532,056	25
Land	440,783	4	440,783	4	Stockholders' equity (Notes 4.11 and 4.13):				
Buildings	753,838	7	781,279	8	Common stock	2,806,456	26	2,703,274	27
Machinery and equipment	1,409,761	13	1,240,240	12	Capital surplus	2,741,791	26	2,747,093	27
Leasing assets	71,071	1	71,071	1	Retained earnings:				
Other equipment	253,995	2	268,397	3	Legal reserve	624,427	6	505,526	5
Subtotal	2,929,448	27	2,801,770	28	Unappropriated earnings	1,096,352	10	1,499,846	15
Less: Accumulated depreciation	(945,300)	(9)	(844,557)	(8)		1,720,779	16	2,005,372	20
Construction in progress and prepayments for equipment	360,457	3	108,779	1	Others:				
Net property, plant and equipment	2,344,605	21	2,065,992	21	Cumulative translation adjustments	73,076	1	6,394	-
Other assets (Notes 4.7 and 4.12)	7,028	-	6,855	-	Net loss unrecognized as pension cost	(6,406)	-	-	-
					Unrealized gain or loss on financial instruments	(29,569)	-	83,013	1
						37,101	1	89,407	1
					Treasury stock	-	-	(14,568)	-
					Total stockholders' equity	7,306,127	69	7,530,578	75
					Commitments and contingencies (Notes 7)				
Total assets	\$ 10,727,224	100	10,062,634	100	Total liabilities and stockholders' equity	\$ 10,727,224	100	10,062,634	100

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

English Translations of Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED

Statements of Income

For the years ended December 31, 2008 and 2007

(Expressed in Thousands of New Taiwan dollars, except earnings per share)

	2008		2007	
	Amount	%	Amount	%
Gross sales	\$ 12,927,172	101	13,370,456	102
Less: Sales returns and allowances	(149,718)	(1)	(204,811)	(2)
Net sales (Notes 5)	12,777,454	100	13,165,645	100
Cost of goods sold (Notes 5)	(11,193,741)	(88)	(11,006,966)	(84)
Gross profit	1,583,713	12	2,158,679	16
Unrealized gross profit from affiliates (Notes 5)	11,528	-	(9,612)	-
Realized gross profit	1,595,241	12	2,149,067	16
Operating expenses:				
Selling and administrative (Notes 5)	(624,578)	(5)	(504,459)	(4)
Research and development	(133,189)	(1)	(149,537)	(1)
	(757,767)	(6)	(653,996)	(5)
Operating income	837,474	6	1,495,071	11
Non-operating income and gains:				
Interest income	13,343	-	15,049	-
Investment income recognized under equity method (Notes 4.5)	97,958	1	-	-
Dividend income	14,181	-	17,108	-
Gain on disposal of investments	52,697	-	76,090	1
Foreign exchange gain, net	61,873	-	1,497	-
Others (Note 5)	11,234	-	8,753	-
	251,286	1	118,497	1
Non-operating expenses and losses:				
Interest expenses	(38,140)	-	(40,375)	-
Investment loss recognized under equity method (Notes 4.5)	-	-	(49,244)	-
Losses on inventory valuation and obsolescence	(120,236)	(1)	(5,720)	-
Impairment loss	(81,998)	(1)	(15,893)	-
Valuation loss on financial instruments	(3,482)	-	(4,682)	-
Others	(30,560)	-	(23,296)	-
	(274,416)	(2)	(139,210)	-
Income before income tax	814,344	5	1,474,358	12
Income tax expense (Notes 4.12)	(139,847)	(1)	(285,351)	(2)
Net income	\$ 674,497	4	1,189,007	10

	Before income tax	After income tax	Before income tax	After income tax
Earnings per share (Notes 4.13) (NT Dollars)				
Basic earnings per share	\$ 2.91	2.41	5.52	4.45
Basic earnings per share—retroactive			\$ 5.35	4.31
Diluted earnings per share	\$ 2.83	2.34	5.33	4.30
Diluted earnings per share—retroactive			\$ 5.18	4.17

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

Chairman: Jing-Rong Tang President: Jing-Rong Tang Accountant Manager: Shu-Ying Chang

English Translations of Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED
Statements of Changes in Stockholders' Equity
For the years ended December 31, 2008 and 2007
(Expressed in Thousands of New Taiwan Dollars)

	Retained Earnings					Others			Treasury stock	Total shareholders' equity
	Common stock	Capital surplus	Legal reserve	Special capital reserve	Unappropriated earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain or loss on financial instruments		
Balance on January 1, 2007	\$ 2,459,742	2,546,528	391,599	293	1,340,863	2,776	-	56,808	(13,957)	6,784,652
Appropriation of prior year's earnings										
Legal reserve	-	-	113,927	-	(113,927)	-	-	-	-	-
Reversal of special reserve	-	-	-	(293)	293	-	-	-	-	-
Stock dividends to shareholders	73,126	-	-	-	(73,126)	-	-	-	-	-
Stock dividends to employees as bonus	66,000	-	-	-	(66,000)	-	-	-	-	-
Cash dividends	-	-	-	-	(731,264)	-	-	-	-	(731,264)
Employees bonus-cash	-	-	-	-	(20,000)	-	-	-	-	(20,000)
Directors and supervisors remuneration	-	-	-	-	(26,000)	-	-	-	-	(26,000)
Capital surplus transferred to capital stock	24,375	(24,375)	-	-	-	-	-	-	-	-
Repurchase of treasury stock	-	-	-	-	-	-	-	-	(151,798)	(151,798)
Treasury stock sold to employees	-	(5)	-	-	-	-	-	-	165,755	165,750
Convertible bonds converted into common stock and capital surplus	76,936	226,164	-	-	-	-	-	-	-	303,100
Exercise of employee stock options	3,095	3,745	-	-	-	-	-	-	-	6,840
Adjustment for available-for-sale financial assets	-	-	-	-	-	-	-	26,205	-	26,205
Cumulative translation adjustments	-	-	-	-	-	3,618	-	-	-	3,618
Adjustment on long-term equity investments	-	(4,964)	-	-	-	-	-	-	-	(4,964)
Subsidiary trading in parent stocks	-	-	-	-	-	-	-	-	(14,568)	(14,568)
Net income for 2007	-	-	-	-	1,189,007	-	-	-	-	1,189,007
Balance on December 31, 2007	2,703,274	2,747,093	505,526	-	1,499,846	6,394	-	83,013	(14,568)	7,530,578
Appropriation of prior year's earnings										
Legal reserve	-	-	118,901	-	(118,901)	-	-	-	-	-
Stock dividends to shareholders	27,035	-	-	-	(27,035)	-	-	-	-	-
Stock dividends to employees as bonus	56,500	-	-	-	(56,500)	-	-	-	-	-
Cash dividends	-	-	-	-	(811,055)	-	-	-	-	(811,055)
Employees bonus – cash	-	-	-	-	(37,500)	-	-	-	-	(37,500)
Directors and supervisors remuneration	-	-	-	-	(27,000)	-	-	-	-	(27,000)
Convertible bonds converted into common stock and capital surplus	19,647	52,653	-	-	-	-	-	-	-	72,300
Net loss not recognized as pension cost	-	-	-	-	-	-	(6,406)	-	-	(6,406)
Adjustment for available-for-sale financial assets	-	-	-	-	-	-	-	(50,379)	-	(50,379)
Cumulative translation adjustments	-	-	-	-	-	66,682	-	-	-	66,682
Adjustment on long-term equity investments	-	(57,955)	-	-	-	-	-	(62,203)	-	(120,158)
Subsidiary trading in parent stocks	-	-	-	-	-	-	-	-	14,568	14,568
Net income for 2008	-	-	-	-	674,497	-	-	-	-	674,497
Balance on December 31, 2008	\$ 2,806,456	2,741,791	624,427	-	1,096,352	73,076	(6,406)	(29,569)	-	7,306,127

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

English Translations of Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(Expressed in Thousands of New Taiwan Dollars)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net Income	\$ 674,497	1,189,007
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation	226,209	191,325
Amortization	-	16,602
Other expenditures—accumulated depreciation on assets leased to others	448	448
Deferred credits—Unrealized gain (loss) from intercompany profit	(11,528)	9,612
Allowance for doubtful accounts	26,712	(811)
Loss on retirement of inventory	24,461	21,736
Unrealized inventory valuation loss	120,236	5,720
Gain on disposal of long-term investments accounted for using equity method	(49,850)	(7,525)
Gain on disposal of available-for-sale financial assets	(2,847)	(67,766)
Loss on disposal of property, plant and equipment, net	5,578	1,042
Property, plant and equipment reclassified as expense	1,234	3,180
Cash dividends from investee's company accounted for using equity method	4,637	5,181
Investment loss (gain) accounted for using equity method, net	(97,958)	49,244
Impairment loss	81,998	15,893
Deferred income tax expense (benefit)	(17,747)	1,465
Changes in assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	38,603	160,453
Decrease in notes and accounts receivable	473,283	140,433
Increase in receivables from related parties	(15,276)	(221,317)
Decrease (increase) in other financial assets	17,280	(21,592)
Increase in inventories	(173,925)	(153,444)
Decrease (increase) in prepaid expenses and other current assets	13,860	(73,081)
Decrease in notes and accounts payable	(47,923)	(11,259)
Decrease in payables from related parties	(40,473)	(46,568)
Decrease in income tax payable	(129,815)	(538)
Increase (decrease) in accrued expenses and other current liabilities	48,748	(22,037)
Decrease in accrued pension liabilities	(108)	(3,217)
Net cash provided from operating activities	<u>1,170,334</u>	<u>1,182,186</u>
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	3,173	1,236
Additions to property, plant and equipment	(590,552)	(387,508)
Proceeds from sale of available-for-sale financial assets	13,288	121,240
Proceeds from long-term investments	25,675	75,221
Proceeds from return of capital by investee's company accounted for using equity method	-	14,274
Increase in financial assets carried at cost—noncurrent	-	(46,063)
Increase in long-term equity investments	(811,250)	(163,561)
Increase in other asset	(173)	(1,846)
Net cash used in investing activities	<u>(1,359,839)</u>	<u>(387,007)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(58,917)	226,453
Borrowing of long-term loans	1,189,000	-
Repayment of long term loans	(750)	-
Cash dividends	(811,055)	(731,264)
Directors' and supervisors' remuneration & employees' bonus	(64,500)	(46,000)
Exercise of employee stock options	-	6,840
Purchase of treasury stock	-	(151,798)
Decrease in treasury stock	-	165,750
Net cash used in financing activities	<u>253,778</u>	<u>(530,019)</u>
Net increase in cash and cash equivalents	64,273	265,160
Cash and cash equivalents at beginning of period	1,043,679	778,519
Cash and cash equivalents at end of period	\$ 1,107,952	\$ 1,043,679
Supplemental disclosure of cash flow information:		
Interest paid, excluding capitalization of interest	\$ 40,332	\$ 43,040
Income tax paid	\$ 287,428	\$ 284,424
Supplement information on non-cash investing and financing activities:		
Unrealized loss (gain) on available-for-sale financial instruments	\$ 112,582	\$ (26,205)
Changes in capital reserve from long-term equity investments	\$ (57,955)	\$ (4,964)
Current portion of bonds payable and long-term debt	\$ 177,800	\$ 204,400
Convertible bonds converted into common stock and capital surplus	\$ 72,300	\$ 303,100
Net loss not recognized as pension cost	\$ 6,406	\$ -
Transfer of property, plant and equipment to other assets	\$ 81,998	\$ -
Cash used in acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	\$ 597,253	427,126
Add: Payable at beginning of period	65,347	25,729
Less: Payable at end of period	(72,048)	(65,347)
Payment in cash	\$ 590,552	\$ 387,508

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. General

Holy Stone Enterprise Company Limited (the Company or Holy Stone) was founded and enrolled on June 1, 1981, based on the Corporate Law of R.O.C. The Company is engaged mainly in the import and export business, manufacturing, and selling of integrated circuits, transistors, and capacitors.

As of December 31, 2008 and 2007, the Company had 780 and 962 employees, respectively.

2. Significant Accounting Policies

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the R.O.C. Significant accounting policies are summarized as follows:

(1) Use of Estimates

The preparation of assets, liabilities, income, losses, and contingencies on the financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of matters. The actual results may differ from management's estimates.

(2) Foreign-currency Transactions and Foreign Statement Conversion

Holy Stone's foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur, while at the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings. The Company evaluated foreign-currency non-monetary assets or liabilities at the historical rate when the transactions occur. However, those evaluated by the fair value should be recorded at prevailing exchange rates of the balance sheet date. For the adjustments on fair value recorded as gains and losses on earnings, the exchange resulting gains or losses are also recognized in earnings; while for those recorded as adjustments on shareholders' equity, the exchange resulting gains or losses are also recognized in adjustments on shareholders' equity.

Holy Stone's foreign long-term investments valued at equity method are recorded in functional currency, and the exchange resulting gains or losses from foreign-currency financial statement translating to domestic-currency financial statement are recorded as cumulative translation adjustments on shareholders' equity.

(3) Classification of Current and Noncurrent Assets and Liabilities

Current assets are cash and cash equivalents which have no designate purpose, assets held for trading purposes, and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations will be settled within one year from the balance sheet date or obligations expected to be settled by the normal operating process of enterprise.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

(4) Impairment of Assets

The Company may forecast receivable amounts for impaired assets (assets except goodwill or units of cash output) on Balance Sheet, and record impairment losses when the amounts receivable are less than assets' book value. If the accumulated amount of impairment losses on assets except goodwill is no longer exist or decreases, the previously recognized impairment loss would be reversed. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation or amortization, as if no impairment loss had been recognized.

(5) Financial Instruments

The Company classified the financial instruments it held as Financial Assets at Fair Value through Profit or Loss, Available-for-sale Financial Assets, Held-to-maturity Financial Assets, Financial Assets Carried at Cost, and Investments in Debt Security with No Active Market.

Holy Stone uses transaction date accounting to financial instrument transaction. Financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition except those with trading purpose.

Financial instruments held or issued by Holy Stone are classified as the following categories by its purpose after the recognition:

1. Financial Assets at Fair Value through Profit or Loss: Financial instruments for the trading purpose of short-term sales and repurchase. Derivatives held by Holy Stone should be classified as this category except those assigned and valid hedging instruments.
2. Available-for-sale Financial Assets: Recognized at fair value, and changes in fair value from subsequent revaluation are reported as a separate component of shareholders' equity. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the amount of the decrease was not recognized, but for debt securities, this is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.
3. Held-to-maturity Financial Assets: Carried at amortized cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.
4. Financial Assets Carried at Cost: If there is no active market for an equity instrument and a reliable fair value can not be estimated, the equity instrument is measured at cost. Impairment losses are recognized if a decrease in the fair value of the instruments can be objectively related to an event. Reversal of impairment losses is not allowed.
5. Investments in Debt Security with No Active Market: Carried at amortized cost, and investing in debt security with no active market. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. When a derivative financial instrument is no longer effective as a hedge, the Company discontinues hedge accounting prospectively and accounts for the derivative financial instruments as financial instruments held for trading.

If interest rate derivatives are not conformed to hedging principle, the accounts receivable and payable they made are recognized as interest revenue or expense, and capital gains or losses are recognized as other gains or losses.

If the derivatives are for a hedge of assets and liabilities, gains or losses are not only recognized as net income, but also adjusted to carrying amount. However, if the derivatives are for a hedge of the confirmed commitment or a forecasted transaction, gains or losses are deferred, and should be recognized or adjusted when the transaction actually happened. Finally, gains or losses from advanced rescinding contracts should be deferred, and should also be amortized during the remaining period of hedged assets or liabilities and adjusted their income and loss.

(6) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided based on a review of the collectability of notes and accounts receivable. The amount of the allowance for doubtful accounts is based on past experience, credit quality, age, and internal credit policy.

(7) Receivable from Related Parties

Accounts and notes receivable from selling finished goods as well as fixed assets and offering labor service, and receivables and interests from financing to related parties should be recorded as receivables from related parties.

(8) Inventories

Inventories are stated at the lower of cost or fair value. Cost is determined using the weighted-average method. The fair value of raw material is determined on the basis of replacement cost. Fair values of finished goods and work-in-process are determined on the basis of net realizable value.

(9) Investments Accounted for Using Equity Method

Investments in companies wherein the Company and its affiliates hold over 20% shareholdings with voting right or hold less than 20% but exercise significant influence over the operating and financial policy decisions are accounted for using the equity method.

The difference, if any, between the cost of investment and the fair value of identifiable net assets; such as, depreciated assets, allowance assets, and amortized assets should be amortized annually with the estimated remaining economic life since acquisition and those from the book value and the fair value of assets should abate the relevant unamortized remains at a time when the status of overestimate or underestimate happened. Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets value. If the fair value of identifiable net assets acquired exceeds the cost of investments, the excess should be assigned to non-current assets. If these assets are all reduced to zero, the remaining excess should be recognized as extraordinary gain.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

Gains or losses on the disposal of long-term investments are accounted as differences between their market price and carrying value on that day. If there are any capital surplus remains from long-term investments and any differences between the cost and net value of the investments, the Company should record them as net income or loss for current period in proportion to sales.

If the Company and the equity method investees have the cross-ownership, gains or losses on investment should be recorded by treasury stock method. Unrealized gains or losses on transaction of investees and subsidiaries should be deferred, and gains or losses on transaction derived from depreciated assets and amortized assets should be recorded annually on the basis of the benefit year while those derived from other assets should be recorded on the realization date.

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage, the resulting amount of the investment in the investee differs from the amount of the Company's share of the investee's equity. The Company records such a difference as an adjustment to capital surplus. If the capital surplus from long-term investment is less than the adjustment, the difference should be recorded as a write-off of retain earnings.

The company not only uses equity method to account those investees that it has controlled, but also compiles quarterly consolidated financial statements.

(10) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost. Interest costs related to the construction of property, plant and equipment are capitalized and included in the cost of the related asset. Significant renewals and improvements are treated as capital expenditures and are depreciated accordingly. Property, plant and equipment not in use are classified as idle assets, including cost, accumulated depreciation, and accumulated impairment.

Depreciation is computed using the straight-line method over estimated service lives, while depreciation on leasehold improvements are computed using average method over the shorter of lease period or estimated service lives. Depreciation on property, plant and equipment, maintained to be used as the expiration of useful life, is continued to be recognized and computed over estimated service lives of the residual.

For cost associated with dismantling and restoring the leased premises housing our fixed assets to the previous state should be recognized as an addition to property, plant and equipment, and any significant part of property, plant and equipment to total cost should be individually recognized as depreciation, according to the Accounting Research and Development Foundation (ARDF) issued the Interpretation No. 2008-340 on November 20, 2008. The Company periodically evaluates the remaining useful lives, depreciation methods, and the residual at the end of each fiscal year, and any changes in the above items are recognized as changes in accounting estimate.

Service lives of main property, plant and equipment go as follows:

1. Buildings: 3 to 50 years.
2. Machinery and equipment: 3 to 10 years.
3. Assets leased to others: buildings- 50 years; equipment- 6 years.
4. Other equipment: 3 to 8 years.

Property, plant and equipment being leased to others by operating method for operating use are recognized as assets leased to others, and those for non-operating uses or are not leased are recognized as other assets, which are valued at the lower of carrying amount or net realized value. Depreciation expenses on assets leased to others and other assets are recognized as non-operating expenses and losses.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

(11) Convertible Bond

Premium or discount on issuing price and par value of convertible bond is computed using interest method during issuing and maturity date, while on with put option are computed during issuing and maturity date of put option.

The amount of strike price of convertible bond with put option in excess of interest compensation of the convertible bond should be recorded as expenses and liabilities using interest method during the period of issuing date and the expiration date of the put option.

Unamortized discount and premium and realized interest compensation should be recorded as evaluation headings of convertible bond. When the debtholders of convertible bond exercise their convertible right, the unamortized premium and discount, issuing costs, accrued interests, bond accrued interests, realized interest compensation liabilities, and par value of convertible bond should be written-off, and the amount of the net written-off in excess of par value should be recorded as capital surplus.

(12) Pension Cost

In 1984, the Company made the employee retirement and resignation mechanism which included all hired employees. According to that mechanism, the amount of employee pension payment is the sum of principal and interests of individual deposit and corporate funded. On December 31, 1997, the revised retirement mechanism according to “Labor Standards Law” regulated that the Company contributes an amount equal to 8% of salaries paid each month to a pension fund (which was not applicable to the pass and in effect since December, 1997). However, since June, 1998, the amount has been changed to 5% of salaries paid each month, and from January, 1999, it has changed to 3% of salaries paid each month.

The Company has the “pension fund monitoring committee”, which is responsible for pension fund administration. The Company contributes pension fund every month, and deposits in the pension fund account in Chinatrust Bank; however, since June, 1998, it has been changed into account in the Central Trust of China.

The Company finishes the actuarial calculation on liabilities of pension fund on the basis of every December 31. If the accumulated amount it should pay exceeds the fair value of pension fund, the difference should be recognized as liabilities on pension fund at that day on the balance sheet, and the pension fund cost should also be recognized. In addition, if there are any reduction and liquidation of the retirement mechanism, gains or losses on the reduction and liquidation should be recorded as Net Period Pension.

The Company has adopted the pension mechanism under the Act, and for employees choosing to apply this Act or taking office after the implement on this Act, their years of service are deemed a defined contribution plan, which made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts and the amount of contributions is recognized as expenses. Those are not regulated by the retirement mechanism of the Company are based on the pension mechanism under the Act.

(13) Treasury Stock

According to the SFAS No.30, “Accounting for treasury stock”, the purchase of issued shares is accounted for by debiting treasury stock. If the proceeds on the disposal of treasury stock exceed the carrying value of treasury stock, the excess is credited to capital surplus from treasury stock. If the proceeds are less than the carrying value of treasury stock, the difference is debited to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb the difference, the rest is recorded as a reduction of retained earnings. The carrying value of treasury stock is calculated by weighted average method on the basis of retired reasons.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

The retirement of treasury stock is accounted for by debiting capital surplus. If the carrying value of treasury stock exceeds the sum of the par and stock premium, the difference is debited to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb the difference, the rest is recorded as a reduction of retained earnings. If the carrying value of treasury stock exceeds the sum of the par and stock premium, the excess is credited to capital surplus from treasury stock.

(14) Revenue Recognition

The Company recognizes revenue when the rewards of ownership and significant risk of the goods has been transferred to the buyer.

(15) Employees' Bonus and Directors' and Supervisors' Remuneration

Based on the interpretation issued by the Accounting Research and Development Foundation of the R.O.C., the Company was requested to record the drafted bonus paid to directors, supervisors and employees as an item under operating expense. Any difference, between actually adopted amount determined in the stockholder meeting and the drafted one on financial statements, is recognized as an appropriation of earnings.

(16) Income Tax

The Company recognizes deferred income tax based on difference between the carrying value of the assets and liabilities and tax basis, and calculated by the tax rate at the expected reverse fiscal year. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits and net operating loss carryforwards. Valuation allowance is provided for deferred income tax assets to the extent that more likely than not such assets will not be realized. Deferred tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities for financial reporting. However, if deferred tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as current or non-current on the basis of the expected length of time before realized.

Tax credits for certain purchases of equipment and technology, research and development expenditures and personnel training are recognized by the current method.

Income tax of 10% on unappropriated earnings generated is provided for as income tax in the year when the shareholders resolve the retention of the earnings.

(17) Earnings per Common Share

Earnings per share ("EPS") of common stock are computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the year. Diluted earnings per share are computed by taking basic earnings per share into consideration, plus additional common shares that would have been outstanding if the potential dilutive share equivalents had been issued. The net income (loss) is also adjusted for the interest and other income or expenses derived from any underlying dilutive share equivalents. The weighted-average outstanding shares are adjusted retroactively for stock dividends, including transfers from retained earnings and capital surplus to common stock, and employee stock bonus issued.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

3. Accounting Change

(1) The Company adopted the interpretation issued by the Accounting Research and Development Foundation of the R.O.C. to record transactions, employees' bonus and directors' and supervisors' remuneration as expenses starting from January 1, 2008. The adoption of this interpretation resulted in a decrease of NT\$48,592 thousand in net income and a decrease in earnings per share of NT\$0.17 for the year ended December 31, 2008. Furthermore, employee bonus issued is no longer adjusted retroactively for basic and diluted earnings per share, while employee bonus with an option for stock issue of dilutive share is measured into diluted earnings per share.

(2) Effective January 1, 2007, the Company adopted the newly released Statement of Financial Accounting Standards No. 37, "Accounting for Intangible Assets". The Company had reassessed the useful lives and the amortization method of its recognized intangible assets at the effective date.

4. Accounts Statement

4.1 Cash and Cash Equivalents

Details:

	<u>12.31.2008</u>	<u>12.31.2007</u>
Cash on hand	\$ 2,675	\$ 2,346
Current deposit	767,319	918,877
Checking account	6,146	4,456
Deposit account	101,812	118,000
Cash equivalents-repurchase bonds	230,000	-
	<u>\$ 1,107,952</u>	<u>\$ 1,043,679</u>

4.2 Financial Instrument

4.2.1 Financial assets at fair value through profit or loss - current

	<u>12.31.2008</u>	<u>12.31.2007</u>
Bonds	\$ 184,922	246,273
Open-ended funds	40,026	20,542
Foreign exchange swap contracts	3,674	897
Foreign currency forward contracts	990	25
Interest rate swap contracts	-	478
Total	<u>\$ 229,612</u>	<u>268,215</u>

For the year ended December 31, 2008 and 2007, financial assets at fair value through loss - current totaled NT\$40,924 thousand and NT\$11,329 thousand, respectively.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

The Company entered into derivatives transactions to hedge foreign currency exchange risk and interest risk exposure. As of December 31, 2008 and 2007, details of derivatives not applied to hedging accounting were as follows:

(1) Foreign exchange swap contracts

12.31.2008		12.31.2007	
Principal(USD)	Term	Principal(USD)	Term
\$ 6,860,000	12.30.2008~01.06.2009	1,410,000	12.19.2007~01.08.2008
6,850,000	12.30.2008~01.06.2009	1,700,000	12.25.2007~01.02.2008
-		1,260,000	12.25.2007~01.02.2008
-		1,300,000	12.25.2007~01.02.2008
-		1,240,000	12.25.2007~01.02.2008
-		1,800,000	12.25.2007~01.02.2008
-		1,430,000	12.25.2007~01.02.2008
-		5,620,000	12.25.2007~01.02.2008
-		610,000	12.25.2007~01.02.2008
-		260,000	12.25.2007~01.02.2008
-		1,800,000	12.26.2007~01.02.2008
\$ 13,710,000		18,430,000	

Since the counterparties of foreign exchange swap contracts are reliable financial institutions, the Company considers that there is limited possibility for counterparties to default, and there is also limited effect on the Company if the default happened. Foreign currency exchange risk exposure arising from foreign currency rate fluctuation would be offset by gain (loss) on hedged items.

(2) Foreign currency forward contracts

	12.31.2008		
	<u>Notional Principal</u>	<u>Currency</u>	<u>Expiry Date</u>
Purchase of foreign currency forward contracts	JPY <u>30,000</u>	YEN to NTD	11.10.2008~01.23.2009
12.31.2007			
	<u>Notional Principal</u>	<u>Currency</u>	<u>Expiry Date</u>
Purchase of foreign currency forward contracts	JPY 223,400	YEN to NTD	12.13.2007~01.17.2008
Purchase of foreign currency forward contracts	JPY <u>224,500</u>	YEN to NTD	12.14.2007~02.19.2008
Total	JPY <u>447,900</u>		

(3) Interest rate swap contracts

	12.31.2007			
	<u>Notional Principal</u>	<u>Interest rate paid</u>	<u>Interest rate earned</u>	<u>Duration</u>
Interest rate swap contracts	\$ <u>250,000</u>	2.11%	1.711% ~2.223%	09.28.2005~09.28.2008

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.2.2 Available-for-sale financial assets - noncurrent

	<u>12.31.2008</u>	<u>12.31.2007</u>
Preferred stock of Chinatrust Financial Holding	\$ 300,000	300,000
GSI TECHNOLOGY INC. (GSIT)	125,430	112,183
eGalax_eMPIA Technology Inc. (EETI)*	46,872	-
INPAQ Technology Co., Ltd. (INPAQ)*	13,193	-
Total	<u>\$ 485,495</u>	<u>412,183</u>

Remark: Investments on eGalax_eMPIA Technology Inc. and INPAQ Technology Co., Ltd. are recognized as items under “available-for-sale financial assets-noncurrent” since EETI has been listed on OTC in April, 2008, and the Company’s chairman has relieved from the position of INPAQ’s chairman and the Company has reduced its shareholding to less than 20%.

4.2.3 Financial assets carried at cost - noncurrent

	<u>12.31.2008</u>	<u>12.31.2007</u>
Unlisted stock- eGalax_eMPIA Technology Inc.	<u>\$ -</u>	<u>87,583</u>

4.3 Notes and Accounts Receivable

Details:

	<u>12.31.2008</u>	<u>12.31.2007</u>
Notes receivable	\$ 151,705	257,310
Accounts receivable	2,015,310	2,382,988
Allowance for collectible accounts	<u>(60,074)</u>	<u>(47,021)</u>
	<u>\$ 2,106,941</u>	<u>2,593,277</u>

4.4 Inventories

Details:

	<u>12.31.2008</u>	<u>12.31.2007</u>
Raw materials	\$ 193,292	172,201
Supplies	3,036	5,551
Work in process	67,791	85,675
Half-finished goods	95,493	59,696
Finished goods	301,296	393,984
Merchandise	<u>1,199,187</u>	<u>993,524</u>
Subtotal	1,860,095	1,710,631
Allowance for reduction of inventory to market	<u>(193,630)</u>	<u>(73,394)</u>
	<u>\$ 1,666,465</u>	<u>1,637,237</u>

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.5 Long-term Equity Investments

Details:

<u>Investee Company</u>	<u>12.31.2008</u>			<u>2008 Gain (Loss) on Investments</u>
	<u>% of Ownership</u>	<u>Investment Cost</u>	<u>Carrying Amount</u>	
Valuation at equity:				
Holy Stone Enterprise (Hong Kong) Co., Ltd.	100.00%	\$ 49,046	153,336	6,667
Holy Stone Holdings Co., Ltd.	100.00%	841,951	891,368	17,527
Intergrated Module Tech. Inc.	-	-	-	612
UHOLY INVESTMENTS CO., LTD	57.69%	225,000	272,168	(9,693)
INPAQ Technology Co., Ltd.	-	-	-	150
GemSOC Innovision Inc.	-	-	-	564
Holy Optic Enterprise Co., Ltd.	-	-	-	2,378
Taiwan Mahk Opt Co., Ltd.	70.56%	75,350	11,611	10,213
Kallex Co., Ltd.	67.77%	71,950	62,684	(4,551)
Martek Co., Ltd.	100.00%	20,000	40,739	20,739
JungChan INVESTMENTS CO., LTD.	100.00%	200,000	253,352	53,352
Less: Accumulated impairment		-	(15,893)	-
		<u>\$ 1,483,297</u>	<u>1,669,365</u>	<u>97,958</u>

<u>Investee Company</u>	<u>12.31.2007</u>			<u>2007 Gain (Loss) on Investments</u>
	<u>% of Ownership</u>	<u>Investment Cost</u>	<u>Carrying Amount</u>	
Valuation at equity:				
Holy Stone Enterprise (Hong Kong) Co., Ltd	100.00%	\$ 49,046	143,740	25,913
Holy Stone Holdings Co., Ltd.	100.00%	250,701	218,391	9,110
Intergrated Module Tech. Inc.	38.14%	30,726	506	(3,330)
UHOLY INVESTMENTS CO., LTD	57.69%	225,000	347,240	21,276
INPAQ TECHNOLOGY CO., LTD.	1.49%	49,368	41,843	8,435
GemSOC Innovision Inc.	67.50%	144,920	10,264	(9,230)
Agora Innovation Corporation	37.75%	39,570	12,511	-
Holy Optic Enterprise Co., Ltd.	50.01%	160,992	36,806	(22,563)
Taiwan Mahk Opt Co., Ltd.	70.56%	75,350	1,398	(73,323)
Kallex Co., Ltd.	67.77%	71,950	67,235	-
Holyoptics Holdings Co., Ltd.	- %	-	-	(5,532)
Less: Accumulated impairment		-	(42,275)	-
		<u>\$ 1,097,623</u>	<u>837,659</u>	<u>(49,244)</u>

1. Holy Stone Holdings Co., Ltd., valued at equity method by the Company, proceeded with equity offering of 1,000 thousand shares, 18,326 thousand shares, 1,000 thousand shares and 500 thousand shares in January 2008, April 2008, January 2007 and July 2007, respectively. The Company acquired by its original percentage of ownership, amounted NT\$32,302 thousand, NT\$558,948 thousand, NT\$32,634 thousand and NT\$16,367 thousand.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Holyoptics Holding Co., Ltd., valued at equity method by the Company, proceeded with equity offering in January 2007 and February 2007. The Company acquired 1,300 thousand shares in total, amounted NT\$42,610 thousand, and increased its ownership interest to 40% from 18.92%. In August 2007, the Company sold all of its ownership interest in Holyoptics for NT\$65,570 thousand, and recognized a gain on disposal of NT\$6,341 thousand.
3. In January 2008, the Company made the initial investment to establish Mertek Co., Ltd. with NT\$10 per share, and acquired a 100.00% ownership interest, or 2,000 thousand shares.
4. In February 2008, the Company made the initial investment to establish JungChan INVESTMENTS CO., LTD. with NT\$10 per share, and acquired a 100.00% ownership interest, or 5,000 thousand shares. In November, 2008, the Company made additional investment in JungChan's equity offering with NT\$10 per share, acquiring a total 100% ownership interest, or 15,000 thousand shares.
5. In June 2008, the Company decreased investment in Holy Optics Enterprise Co., Ltd. and returned the equity interest amounted NT\$24,556 thousand.
6. In June 2008, chairman of the Company relieved from the position of INPAQ Technology Co., Ltd. chairman, and the Company no longer held a controlling interest over INPAQ. As a result, INPAQ has been accounted for an item under "Available-for-sale financial assets-noncurrent."
7. Integrated Module Tech. Inc., valued at equity method by the Company, has made liquidation in February 2008, and the Company received its returned equity of NT\$1,120 thousand in August 2008.
8. GemSOC Innovision Inc., valued at equity method by the Company, has made liquidation in June 2008, and projected to return the equity of NT\$4,797 thousand. As a result, GemSOC has been recognized as an item under "Other financial assets-current."
9. Holy Optics Enterprise Co., Ltd., valued at equity method by the Company, has made final accounts in December 2008, and projected to return the equity of NT\$6,787 thousand. As a result, Holy Optics has been recognized as an item under "Other financial assets-current."
10. In November 2007, the Company acquired a 50.00% ownership interest, or 2,360 thousand shares in Kallex with NT\$12 per share. In December 2007, the Company made additional investment in Kallex's equity offering at par, increasing its ownership interest to 67.77%, or 4,363 thousand shares, from 50.00%.

11. Details on accumulated impairment are as follows:

	12.31.2008	12.31.2007
GemSOC Innovision Inc.	\$ -	6,031
Agora Innovation Corporation	-	12,511
Holy Optics Enterprise Co., Ltd.	-	7,840
Kallex Co., Ltd.	15,893	15,893
	\$ 15,893	42,275

12. Please refer to the "Additional Disclosures" on Notes 11 to get the information of fair values of publicly traded stocks in investments accounted for using equity method.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.6 Property, plant and equipment

1. Property, plant and equipment provided by the Company as collaterals for bank loans, please refer to Notes 6.
2. Details on assets leased to others of the Company as of December 31, 2008 and 2007 are summarized as follows:

	12.31.2008	12.31.2007
Assets leased to others-land	\$ 48,215	48,215
Assets leased to others-house	22,856	22,856
Subtotal	71,071	71,071
Accumulated depreciation	(4,399)	(3,951)
	\$ 66,672	67,120

4.7 Idle Assets

Details on idle assets of the Company as of December 31, 2008 and 2007 are summarized as follows:

	12.31.2008	12.31.2007
Machinery and equipment	\$ 103,110	414
Other equipment	16,791	-
Subtotal	119,901	414
Less: Accumulated depreciation	(37,863)	-
Accumulated impairment	(82,038)	(414)
Total	\$ -	-

4.8 Short-term Loans

Details:

	12.31.2008	12.31.2007
Purchases loans	\$ 656,469	715,386
Interest rate	1.40%~3.80%	1.40%~5.85%

As of December 31, 2008 and 2007, the Company's credit lines on short-term loans which have not been used from financial institutions are NT\$2,053,057 thousand and NT\$1,298,317 thousand, and the Company does not have to pay any committee fees for these credit lines.

The Company's short-term loans take the assets listed on "Notes 6" as collaterals.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.9 Long-term Liabilities

Details:		<u>12.31.2008</u>
<u>Creditor</u>	<u>Line of Credit and Key Terms</u>	
Yuanta, Neihu Branch	The borrowing amount is NT\$500,000 thousand. With interest paid monthly from June 2008 to June 2013, and principal paid based on the average amortization method since the third year, meaning a two-year deferred period of principal payment.	\$ 439,000
HNCB, Shin-Wei Branch	The borrowing amount is NT\$400,000 thousand. With interest paid and principal paid of the average amortization method every 3 months from September 2008 to December 2013.	249,250
Bank of Taiwan, Xinyi Branch	The borrowing amount is NT\$200,000 thousand. With interest paid monthly from September 2008 and July 2011, and all principal paid on the expiration date.	200,000
First Bank, Neihu Branch	The borrowing amount is NT\$350,000 thousand. With interest paid monthly from September 2008 to December 2013, and principal paid quarterly based on the average amortization method since the third year, meaning a two-year deferred period of principal payment.	300,000
	Subtotal	1,188,250
Less: Current portion		<u>(51,000)</u>
		<u>\$ 1,137,250</u>

1. Each long-term loan of the Company is unsecured loan.
2. The aforementioned interests are paid in floating interest rate, with an approximation of 1.660 percent to 2.673 percent in 2008.
3. As of December 31, 2008, long-term loans not be used by the Company totaled NT\$861,750 thousand.
4. As of December 31, 2008, the loan balance should be paid as follows:

<u>Period</u>	<u>Amount</u>
01.01.2009~12.31.2009	\$ 51,000
01.01.2010~12.31.2010	124,167
01.01.2011~12.31.2011	439,333
01.01.2012~12.31.2012	365,333
01.01.2013~12.31.2013	<u>208,417</u>
	<u>\$ 1,188,250</u>

4.10 Bonds Payable

Details:

	<u>12.31.2008</u>	<u>12.31.2007</u>
Domestic unsecured bond 2	\$ 126,800	204,400
Corporate bonds due in one year	<u>(126,800)</u>	<u>(204,400)</u>
	<u>\$ -</u>	<u>-</u>

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

Condition of issuing corporate bonds listed above is summarized as follows:

Domestic unsecured bond 2

Original issue price	NT\$1,000,000 thousands
Original issue date	April 14, 2004
Issue term	5 years
Coupon rate	none
Article of conversion	Bondholders may convert bonds into Holy Stone's common shares based on relevant regulation from the original issue date to the maturity date. The convertible price was NT\$34.20 per common share.
Put right	Bondholders have the right to request Holy Stone to repurchase bonds on the record date (April 13, 2007 and April 13, 2009), at par.
Redemption right	(1) After bondholders requested for conversion, if the unconverted bond value was less than NT\$ 0.1 billion (10% of the original issue price), the Company could send bonds redemption notifications to bondholders at any time. If bondholders do not reply in writing, bonds would be converted into common shares at current price. Conversely, the Company would redeem all bonds in cash with redemption price calculated by Yield to Call at maturity. (2) Effective from the next day of the 3rd month of issuance, the Company may, at any time during July 14, 2004 and March 4, 2009, inform bondholders by bonds redemption notifications in 30 trading days if the closing price of its common shares on TWSE is at least 150% of the conversion price for 30 consecutive trading days. If bondholders do not reply in writing, bonds would be converted into common shares at current price. Conversely, the Company would redeem all bonds in cash with redemption price calculated by Yield to Call at maturity.

In 2008 and 2007, certain bondholders exercised their rights to convert bonds into 1,964,670 shares and 7,693,523 shares in common stock with the principal amount of NT\$72,300 thousand and NT\$303,100 thousand, respectively. In September and October 2008, the Company spent NT\$3,038 thousand and NT\$2,156 thousand redeeming and cancelling outstanding bonds with the principal amount of NT\$3,100 thousand and NT\$2,200 thousand, respectively.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.11 Pension Plan

- (1) Reconciliation of funded status of the plan and accrued pension cost at December 31, 2008 and 2007.

	<u>12.31.2008</u>	<u>12.31.2007</u>
Benefit obligation:		
Vested benefit obligation	\$ (5,841)	(5,558)
Nonvested benefit obligation	<u>(77,948)</u>	<u>(64,289)</u>
Accumulated benefit obligation	(83,789)	(69,847)
Additional benefits based on future salaries	<u>(10,637)</u>	<u>(30,046)</u>
Projected benefit obligation	(94,426)	(99,893)
Fair value of plan assets	<u>71,048</u>	<u>70,056</u>
Funded status	(23,378)	(29,837)
Unrecognized net transition obligation	17,044	-
Unrecognized net loss	<u>(6,406)</u>	<u>23,395</u>
Accrued pension cost	<u>\$ (12,740)</u>	<u>(6,442)</u>

- (2) Components of net periodic pension cost are as follows:

	<u>2008</u>	<u>2007</u>
Service cost	\$ 2,234	2,160
Interest cost	3,496	2,809
Actual return on plan assets	(2,452)	(2,329)
Amortization and defers	-	(734)
Unamortized pension	<u>789</u>	<u>-</u>
Net periodic pension cost	<u>\$ 4,067</u>	<u>1,906</u>

- (3) Actuarial assumptions are as follows:

	<u>2008</u>	<u>2007</u>
Discount rate used in determining present values	3.50%	3.50%
Salary adjustment rate	3.00%	3.25%
Expected rate of return on plan assets	3.50%	3.50%

- (4) Pension information is summarized as follows:

	<u>2008</u>	<u>2007</u>
Balance of pension fund, in the end	\$ 69,487	68,761
Current pension cost		
Net periodic pension cost-payment	4,032	2,264
Net periodic pension cost-contribution	24,147	21,820
Accrued liabilities on pension	12,740	6,442

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.12 Income Tax

(1) Income tax expenses of the Company in 2008 and 2007 consisted of the following:

	2008	2007
Income tax expense currently	\$ 157,594	283,886
Deferred income tax expense	(17,747)	1,465
	<u>\$ 139,847</u>	<u>285,351</u>

Deferred income tax of the Company consisted of the following:

	2008	2007
Allowance for uncollectible accounts	\$ (3,725)	-
Unrealized gain or loss on foreign exchange	15,199	828
Unrealized loss on investment, net	24,489	(10,677)
Net changes in interest refund	(20,326)	-
Changes in reduction of inventory to market	(30,060)	(1,430)
Valuation Allowance- current changes in deferred income tax assets	(4,163)	10,617
Others	839	2,127
	<u>\$ (17,747)</u>	<u>1,465</u>

(2) The highest income tax rate of the Company is 25%, and applies to the income basic tax of "The Income Basic Tax Regulations." Differences in income before tax between income tax, calculated on the basis of regulated income tax rate, and assessed income tax expense on income statement in 2008 and 2007 consisted of the following:

	2008	2007
Income tax expense based on "income before income tax" at above rate	\$ 203,586	368,590
Income from securities selling	(16,273)	(1,422)
Loss on capital reduction	(18,956)	(34,269)
Underestimation or overestimation on income tax of the past years	5,556	(4,556)
Unrealized Gain on Inter-Affiliate Accounts	(2,882)	2,403
Valuation Allowance – current changes in deferred income tax assets	(4,163)	10,617
Investment allowance – 5 years tax-free and machinery and equipment purchase	(65,775)	(58,109)
Additional tax at 10% on unappropriated earnings	11,102	10,924
Others	27,652	(8,827)
	<u>\$ 285,351</u>	<u>285,351</u>

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

(3) The components of deferred income tax assets (liabilities) are summarized as follows:

	12.31.2008	12.31.2007
Current deferred income tax assets:		
Losses on inventory valuation and obsolescence	\$ 48,408	18,348
Allowance for uncollectible accounts-over limit	11,582	7,857
Unrealized loss (gain) on foreign exchange, net	(13,678)	1,521
Others	183	1,022
Net current deferred income tax assets	\$ 46,495	28,748
Noncurrent deferred income tax assets:		
Unrealized loss (gain) on investment, net	\$ 34,355	58,844
Reductions and others	27,045	6,719
Valuation allowance	(61,400)	(65,563)
Net noncurrent deferred income tax assets	\$ -	-

“Net current deferred income tax assets” above is listed at “Prepayments and other current assets”, and “noncurrent deferred income tax assets” is listed at “Other assets.”

(4) The tax authorities have examined income tax returns of the Company through 2006.

(5) The integrated income tax system:

	12.31.2008	12.31.2007
Unappropriated earnings before 1997	\$ 1,848	1,848
Unappropriated earnings after 1998	1,094,504	1,497,998
	\$ 1,096,352	1,499,846
Imputation credit account (ICA) balance	\$ 252,034	229,226
	2008 (Expected)	2007 (Actual)
Actual /estimated creditable ratio for earnings distribution	25.39%	24.84%

4.13 Stockholders' Equity

1. Common Stock and Stock Issuances

According to a stockholder resolution on June 15, 2007, the Company increased its common stock by NT\$139,126 thousand through the transfer of retained earnings, including employee bonuses of NT\$66,000 thousand, and by NT\$24,375 thousand through the transfer of capital surplus. The record date for stock issuance was August 6, 2007. The stock issuance was authorized by and registered with government authorities.

According to a stockholder resolution on June 11, 2008, the Company increased its common stock by NT\$83,535 thousand through the transfer of retained earnings, including employee bonuses of NT\$56,500 thousand. The record date for stock issuance was August 18, 2008. The stock issuance was authorized by and registered with government authorities.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

As of 2008 and 2007, NT\$19,647 thousand and NT\$76,936 thousand of common stock had been issued for conversion rights exercised on convertible bonds at par value of NT\$72,300 thousand and NT\$303,100 thousand, with NT\$52,653 thousand and NT\$226,164 thousand of offsetting outstanding convertible bonds payable.

Based on the board of directors resolution on June 30 and March 31, 2007, the Company increased its common stock through employee stock option subscription of NT\$195 thousand and NT\$2,900 thousand, respectively. The base days of capital increase were June 30 and March 31, 2007. The stock issuances were authorized by and registered with government authorities.

As of December 31, 2008 and 2007, the Company's authorized common stock both amounted to NT\$3,500,000 thousand, and the Company's issued common stock, par value NT\$10 per share, was NT\$2,806,456 thousand and NT\$2,703,274 thousand, respectively.

2. Treasury Stock

Based on the board of directors resolution on December 13, 2006, the Company repurchased treasury stock during December 14, 2006 and February 13, 2007 by the regulation of the Securities Exchange Act §28-II. The total sum of shares and common stock repurchased was 3,000 thousand shares and NT\$165,755 thousand, respectively. Pursuant to the chairman resolution (authorized by the board) on August 21, 2007, total treasury stock was transferred to employees at the amount of NT\$165,750 thousand, and the base day for employee warrant exercise was September 27, 2007. The stock issuance was authorized by and registered with government authorities.

Changes in the Company's shares of treasury stock in 2008 and 2007:

Unit: thousand shares

2008				
Reasons for reduction	Shares on Jan. 1	Increase	Decrease	Shares on Dec. 31
Originally held by subsidiary, but the controlling relationship was no longer exist	<u>314</u>	<u>-</u>	<u>314</u>	<u>-</u>

Unit: thousand shares

2007				
Reasons for reduction	Shares on Jan. 1	Increase	Decrease	Shares on Dec. 31
Repurchase for transferring to employees	260	2,740	3,000	-
Held by subsidiaries	-	314	-	314
	<u>260</u>	<u>3,054</u>	<u>3,000</u>	<u>314</u>

Pursuant to the Securities Exchange Act, treasury stock held by the Company is not allowed to hypothecate, and there is no shareholder equity before the transfer.

Pursuant to the Securities Exchange Act, the rate of shares repurchased by the Company to total shares cannot exceed ten percent of issued shares, and the value amount of purchasing shares cannot exceed the sum of retained earnings, stock premiums, and realized capital surplus. The Company is conformable to these regulations.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

3. Capital Surplus

According to the Republic of China Company Act, capital surplus, including premium from issuing stock and donations received, shall be applied to offset accumulated deficits before it can be used to increase common stock, and cannot be applied to cash dividend payment. The realized capital surplus stated above included premium from issuing stock and donated assets received. As of December 31, 2008 and 2007, the balance of capital surplus was summarized as follows:

	12.31.2008	12.31.2007
Premium of cash capital increase	\$ 945,386	945,386
Premium of corporate bond converted to common stock	1,463,082	1,410,429
Premium of treasury stock selling	424	424
Merger	144,225	144,225
Employees stock option	163,547	163,547
Long-term equity investment	25,127	83,082
	\$ 2,741,791	2,747,093

4. Legal Reserve

According to the Republic of China Company Act, 10 percent of the annual earnings shall be allocated as legal reserve until accumulated legal reserve equals the issued common stock. Legal reserve can only be used to offset accumulated deficits and increase common stock. The distribution of additional shares to shareholders through capitalizing legal reserve is limited to 50 percent of the accumulated legal reserve and is effected only when the accumulated legal reserve exceeds 50 percent of the issued common stock.

5. Special Reserve

According to the Securities Exchange Act, a special reserve equivalent to the total amount of items that are accounted for as deductions to the stockholders' equity shall be set aside from current earnings, and not distributed. The special reserve shall be available for appropriation to the extent of reversal of deductions to stockholders' equity in subsequent periods.

6. Distribution of earnings

According to Holy Stone's articles of incorporation, 10 percent of the annual earnings, after payment of income taxes due and offsetting accumulated deficits, shall be set aside as a legal reserve. The remaining earnings may be drafted by the board and resolved by the shareholders' meeting then distributed as follows:

- (1) No less than 7% as employee bonuses.
- (2) At most 3% as the remuneration to directors and supervisors.
- (3) The remainder as common stockholders' dividends.

For the years ended December 31, 2008, the bonuses to employees and remuneration to directors and supervisors were accrued based on a respective 10% and 3% of net income after setting aside 10% net income as legal reserves. In 2008, bonuses to employees were NT\$49,383 thousand and remuneration to directors and supervisors were NT\$14,951 thousand. If employee bonuses are paid in the form of company shares, the number of employee bonus shares shall be derived from dividing the approved bonus amount by its closing price one day prior to the annual general shareholders' meeting (AGM), adjusted for cash and/or stock dividends if any. If the board's approval differs from the amount ratified at the AGM, the difference will be treated as changes in accounting estimation and will be adjusted in 2009's income.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

The statuses of earnings distribution in 2007 and 2006, based on the general shareholders' meeting resolution on June 11, 2008 and June 15, 2007, were as follows:

	2007	2006
Provision for legal reserve	\$ 118,901	113,927
Reversal of special reserve	-	(293)
Stock dividends	27,035	73,126
Stock dividends to employees as bonus	56,500	66,000
Cash dividends	811,055	731,264
Employee bonuses-cash	37,500	20,000
Directors' and supervisors' remuneration	27,000	26,000
	\$ 1,077,991	1,030,024

Earnings distribution above had no difference to the earnings distribution plan resolved by the Company's board, and were authorized by government authorities. Any relevant information could be found on the "Market Observation Post System" and other channels.

7. Dividend Policy

The Company made its dividend policy by considering the mid-term and long-term operating growth and capital need for investing activities, together with the purpose of healthy financial structure. The board drafts an earning distribution plan and proposes it to the annual general shareholders' meeting. The appropriation of the Company's net income may be distributed by way of cash dividend and/or stock dividend considering future capital demand and stock dilution. Stock dividends take 0% to 50% of total dividends, while cash dividends take 50% to 100% of total dividends.

8. Employee Stock options plans (ESO Plans)

In order to attract well-performed employees and encourage each employee to create benefits for the Company and all stockholders, the employee stock options were issued by the resolution of the board. Options were granted at the common stock's closing price on the issuing date. If the closing price was less its face value, options were granted at the face value. The Company exercised contracts by issuing new common stock, and the details were summarized as follows:

ESO Plans	Resolving Date of the Board	Exercise Shares Per Unit	Units Granted Issued	Actual Issuing Date	Units Actually Issued	Original Exercise Price (NTD)	Exercise Price on Dec. 31, 2008 (NTD)	Issuing Way
2006 1 st ESO Plan	07.10.2006	1	5,000,000	08.21.2006	1,500,000	\$ 49.3	39.30	In turn
"		-	-	06.15.2007	3,500,000	58.5	47.70	"
2007 1 st ESO Plan	11.11.2007	1	10,000,000	12.03.2007	10,000,000	50.0	44.50	At a time

The aforementioned exercise price has been adjusted by the Company for the payment of stock dividends.

According to the first ESO plan in 2007, employees with stock options could exercise 15% of all the stock option two years after they received and it would become 30% three years after, 55% five years after, 80% five years after, and 100% six years after. According to the first ESO plan in 2006, employees with stock options could exercise 50% of all the

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

stock option two years after they received and it would become to 75% three years after, and 100% four years after.

After the Company merged with INFORTECH CO., LTD., it issued 1,049 units of employee stock options at the rate of 1.43 shares of INFORTECH CO., LTD. to 1 share of Holy Stone's stock, and the exercise share per unit was 1,000 shares, so there were 1,409,000 shares in total. The exercise price was NT\$20 per share by issuing new shares.

As of December 31, 2008, details of vested options of ESO Plans were as follows:

<u>ESO Plans</u>	<u>Units Granted Issued</u>	<u>Units Actually Issued</u>	<u>Units Converted</u>	<u>Units Before Converted</u>	<u>Duration</u>
2006 1 st ESO Plan	5,000,000	1,500,000	-	1,500,000	08.21.2006~08.20.2012
"	-	3,500,000	-	3,500,000	06.15.2007~06.14.2013
Merger with INFORTECH CO., LTD.	1,049	1,049	-	1,049	02.10.2004~02.09.2009
2007 1 ^s ESO Plan	10,000,000	10,000,000	-	10,000,000	12.03.2007~12.02.2015
Total	<u>\$ 15,011,049</u>	<u>15,011,049</u>	<u>-</u>	<u>15,001,049</u>	

According to standards of No. 70, No. 71 and No.72, issued by the Accounting Research and Development Foundation in Taiwan on March 17, 2003, all enterprises were applied to those standards if the granted date or the revised date that they issued their employee stock options were later than January 1, 2004. Pursuant to the Statement of Financial Accounting Standards No.39, "Share-based payment", the aforementioned employee stock options need not to retroactively adjust to be applied to the SFAS 39, but had to disclose the pro forma earnings and earnings per share. Consequently, the relevant information of the compensable employee stock options of 15,001,049 units, 16,049,000 shares in common stock, was disclosed as follows:

- (1) No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2008 and 2007 since market value of stock at measurement date was equal to exercise price.
- (2) Had the Company used the fair value based method to evaluate the options granted, relevant information would have been disclosed as follows:
 - A. Holy Stone determined the fair value of vested ESO options at the date of grant using the Black-Scholes option pricing model. Compensation costs amounted to NT\$117,266 thousand and NT\$23,947 thousand in 2008 and 2007, respectively. Assumptions used to estimate the fair value of the aforementioned employee stock options were summarized as follows:

	<u>2007 1st ESO Plan</u>	<u>2006 1st ESO Plan</u>	<u>2006 1st ESO Plan</u>	<u>2004 Consolidated ESO</u>
Units issued	10,000,000	3,500,000	1,500,000	1,049
Dividend yield	- %	- %	5.71 %	4.18 %
Expected volatility	23.75 %	14.53 %	23.73 %	28.06 %
Risk-free interest rate	2.25 %	2.37 %	1.77 %	1.74 %
Expected continuing period	8 years	6 years	6 years	5 years
Fair value per unit (NTD)	NT\$18.755	NT\$12.196	NT\$5.120	NT\$28.854

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

B. A summary of the ESO plans were summarized as follows:

Stock Option	2008		2007	
	Unit (in thousands)	Weighted-average exercise price (NT\$)	Unit (in thousands)	Weighted-average exercise price (NT\$)
Beginning of year	16,049	\$ 49.08	2,549	\$ 37.07
Units granted	-	-	13,500	52.20
Units exercised	-	-	-	-
End of year	<u>16,049</u>	43.11	<u>16,049</u>	49.80
End of year , vested options	<u>16,049</u>	43.11	<u>16,049</u>	49.80
Weighted-average fair value of current granted stock options	<u>-</u>	-	<u>230,236</u>	-

C. As of December 31, 2008, details of outstanding options of the ESO plans were as follows:

Exercise price (NT\$)	Outstanding stock options as of Dec. 31, 2008			Vested options	
	Units	Remaining vesting period	Exercise price (NT\$)	Units as of 12.31.2008	Exercise price (NT\$)
\$ 20.00	1,049	0.02	\$ 20.00	839	\$ 20.00
39.30	1,500,000	3.46	39.30	750,000	39.30
47.70	3,500,000	4.54	47.70	-	-
44.50	10,000,000	6.92	44.50	-	-

D. Had the Company used the fair value based method to evaluate the options granted, the pro forma results of the Company would have been as follows:

		2008	2007
Net income	Net income as reported	\$ 674,497	1,189,007
	Pro forma net income	586,548	1,171,047
Basic earnings per share (NT Dollars)	Basic EPS as reported	2.41	4.45
	Pro forma basic EPS	2.10	4.38

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.14 Earnings per Share

The Company's basic earnings per share and diluted earnings per share of 2008 and 2007 were computed as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>income tax</u>	<u>income tax</u>	<u>income tax</u>	<u>income tax</u>
Basic EPS				
Net income	<u>\$ 814,344</u>	<u>674,497</u>	<u>1,474,358</u>	<u>1,189,007</u>
Weighted average number of shares outstanding (in thousand)	<u>279,608</u>	<u>279,608</u>	<u>267,253</u>	<u>267,253</u>
Basic EPS (NT Dollars)	<u>\$ 2.91</u>	<u>2.41</u>	<u>5.52</u>	<u>4.45</u>
Basic EPS-retroactive				
Net income			<u>\$ 1,474,358</u>	<u>1,189,007</u>
Weighted average number of shares outstanding (in thousand)			<u>275,607</u>	<u>275,607</u>
Basic EPS- retroactive (NT Dollars)			<u>\$ 5.35</u>	<u>4.31</u>
Diluted EPS				
Net income	<u>\$ 814,344</u>	<u>674,497</u>	<u>1,474,358</u>	<u>1,189,007</u>
Weighted average number of shares outstanding (in thousand)	279,608	279,608	267,253	267,253
Effect of dilutive potential common stock				
Expensing employee bonus	2,746	2,746	-	-
Employee stock options	448	686	686	686
Domestic convertible bond	<u>4,865</u>	<u>4,865</u>	<u>8,584</u>	<u>8,584</u>
Diluted EPS- weighted average number of shares outstanding (in thousand)	<u>287,667</u>	<u>287,667</u>	<u>276,523</u>	<u>276,523</u>
Diluted EPS (NT Dollars)	<u>\$ 2.83</u>	<u>2.34</u>	<u>5.33</u>	<u>4.30</u>
Diluted EPS-retroactive				
Diluted EPS-net income			<u>\$ 1,474,358</u>	<u>1,189,007</u>
Weighted average number of shares outstanding (in thousand)			275,607	275,607
Effect of dilutive potential common stock				
Employee stock options			686	686
Domestic convertible bond			<u>8,584</u>	<u>8,584</u>
Diluted EPS- weighted average number of shares outstanding (in thousand)			<u>284,877</u>	<u>284,877</u>
Diluted EPS-retroactive (NT Dollars)			<u>\$ 5.18</u>	<u>4.17</u>

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.15 Additional Disclosure on Financial Instruments

1. Fair value information

As of December 31, 2008 and 2007, the fair value of the Company's financial assets and liabilities was as follows:

	12.31.2008		12.31.2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 1,107,952	1,107,952	1,043,679	1,043,679
Notes and accounts receivable (including related parties)	2,944,974	2,944,974	3,429,693	3,429,693
Financial assets at fair value through profit or loss-current:				
Bond investments	184,922	184,922	246,273	246,273
Open-ended funds	40,026	40,026	20,542	20,542
Foreign exchange swap contracts	3,674	4,058	897	16
Foreign currency forward contracts	990	961	25	239
Interest rate swap contracts	-	-	478	478
Available-for-sale financial assets - noncurrent				
Preferred stock of Chinatrust Holdings	300,000	300,000	300,000	300,000
GSIT, publicly traded stock in NASDAQ	125,430	125,430	112,183	112,183
EETI, publicly traded stock	46,872	46,872	-	-
INPAQ, publicly traded stock	13,193	13,193	-	-
Financial assets carried at cost - noncurrent				
EETI, non-publicly traded stock	-	-	87,583	*
Financial liabilities:				
Short-term loans	656,469	656,469	715,386	715,386
Notes and accounts payable (including related parties)	1,038,063	1,038,063	1,126,459	1,126,459
Bonds payable (current portion)	126,800	124,264	204,400	250,492
Long-term borrowing (including current portion)	1,188,250	1,188,250	-	-

Remarks: The fair value of non-publicly traded stocks is unavailable since there is no active market transaction.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

2. The following methods and assumptions are used to estimate the fair value of financial instruments:
- (1) The carrying amount of cash and cash equivalents, notes and accounts receivable, short-term loans, and short-term financial instruments approximates their fair value due to the short-term nature of these items.
 - (2) The fair value of financial instruments is based on publicly quoted market prices. If market price is unavailable, fair value is determined using a valuation technique, with estimates and assumptions consistent with those made by market participants.
 - (3) The fair value of bonds payable was based on their quoted market price.
 - (4) The fair value of long-term borrowings approximates their carrying amount due to floating interest rate.
3. The fair value of the Company's financial assets and liabilities determined by publicly quoted market price, if available, or determined using a valuation technique were as follows:

	<u>12.31.2008</u>		<u>12.31.2007</u>	
	<u>Publicly quoted market prices</u>	<u>Fair value based on valuation technique</u>	<u>Publicly quoted market prices</u>	<u>Fair value based on valuation technique</u>
Financial assets:				
Cash and cash equivalents	\$ -	1,107,952	-	1,043,679
Notes and accounts receivable (including related parties)	-	2,944,974	-	3,429,693
Financial assets at fair value through profit or loss-current:				
Bond investments	184,922	-	246,273	-
Open-ended funds	40,026	-	20,542	-
Foreign exchange swap contracts	-	4,058	-	16
Foreign currency forward contracts	-	961	-	239
Interest rate swap contracts	-	-	-	478
Available-for-sale financial assets - noncurrent				
Preferred stock of Chinatrust Holdings	-	300,000	-	300,000
GSIT, publicly traded stock in NASDAQ	125,430	-	112,183	-
EETI, publicly traded stock	46,872	-	-	-
INPAQ, publicly traded stock	13,193	-	-	-
Financial liabilities:				
Short-term loans	-	656,469	-	715,386
Notes and accounts payable (including related parties)	-	1,038,063	-	1,126,459
Bonds payable	-	-	250,492	-
Bonds payable (current portion)	124,264	-	250,492	-
Long-term borrowing (including current portion)	-	1,188,250	-	-

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4. Information about financial risks

(1) Market risk

The Company holds equity securities which are classified as financial assets held for trading and in available-for-sale. They are valued by fair value, and are exposed to the risk of price changes in securities market.

(2) Credit risk

The Company's potential credit risk is derived primarily from cash and cash equivalents, equity investments, and accounts receivable. The Company deposits its cash in different financial institutions. Equity Securities held by the Company are funds and stocks issued by companies with reputable credit ratings. The Company limits the amount of credit exposure with any one institution. As a result, the Company believes that there is a limited concentration of credit risk in cash and investments. The majority of the Company's customers are in extensive high-tech computer industry. The Company continuously evaluates the credit quality and financial strength of its customers. If necessary, the Company will request collateral from its customers.

(3) Liquidity risk

The Company has sufficient working capital to meet its contractual obligations. Therefore, management believes that there is no significant liquidity risk.

(4) Cash flow risk resulting from change in interest rates

The Company's short-term and long-term borrowings are floating-interest-rate borrowings. As a result, the Company is exposed to fluctuation in interest rates that affect cash flows for interest payments on these borrowings. If the market interest rates on the Company's floating interest rate borrowings had been 1% higher with all other variables held constant, the interest expense would have been NT\$18,447 thousand different.

5. Related-party Transactions

5.1 Name and Relationship

<u>Name of related party</u>	<u>Relationship with the company</u>
GSI TECHNOLOGY, INC. ("GSIT")	The Company holds directorship (The Company's chairman has relieved from the Board since September 2007.)
Holy Stone Enterprise (H.K) Co., Ltd. ("Holy Stone H.K")	Subsidiary of Holy Stone (H.S)
GemSOC Innovision Inc. ("GemSOC")	Subsidiary of H.S (liquidated in June 2008)
Integrated Module Tech, Inc. ("IMT")	Subsidiary of H.S (liquidated in February 2008)
INPAQ TECHNOLOGY CO. LTD ("INPAQ")	Subsidiary of H.S prior to June 2008. (The Company's chairman has no longer been as INPAQ's chairman since June 2008.)
Holyoptics Enterprise Co., Ltd. ("Holyoptics")	Subsidiary of H.S (liquidated in December 2008)

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

<u>Name of related party</u>	<u>Relationship with the company</u>
Martek Co., Ltd.	Subsidiary of H.S
HEC TECHNOLOGY Co., Ltd. ("HEC")	Subsidiary of Holy Stone Holdings (H.S.H)
TAIWAN ALPHA SYSTEM CO. ("ALPHA")	Subsidiary of UHOLY INVESTMENT (U.I)
eGalax_eMPIA Technology Inc. ("EETP")	The Company holds directorship
Holy Stone International Trading (Shanghai) Co., Ltd. ("Holy Stone Shanghai)	Subsidiary of Holy Stone INVESTMENTS (H.S.I)
INFORTECH International Trading (Shanghai) Ltd.	Subsidiary of H.S.I
INFORTECH (CHINA) CO., LTD. ("INFORTECH")	Subsidiary of H.S.I
Milestone Global Technology Ltd. ("MGT")	Subsidiary of H.S.I
Holy Stone (Europe) Ltd.	Subsidiary of Green Glory Holdings (G.G.H)
HOLYGENE BIOTECH CO., LTD. ("HOLYGENE")	Subsidiary of U.I
All directors and supervisors, president and vice presidents	Main management team of the Company

5.2 Significant Transactions with Related Parties

Significant transactions with related parties in 2008 and 2007, and the transaction remainders as of December 31, 2008 and 2007 were as follows:

1. Sales

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>% of net sales</u>	<u>Amount</u>	<u>% of net sales</u>
Holy Stone (Hong Kong)	\$ 670,309	5.25	773,580	5.88
Holy Stone (Shanghai)	1,041,811	8.15	974,400	7.40
INFORTECH International Trading	70,996	0.56	169,244	1.29
INFORTECH (CHINA)	188,106	1.47	-	-
Others	9,516	0.07	12,080	0.09
	<u>\$ 1,980,738</u>	<u>15.50</u>	<u>1,929,304</u>	<u>14.66</u>

As of December 31, 2008 and 2007, the deferred unrealized gross profits, made by downstream transactions with the affiliates, were NT\$32,765 thousand and NT\$44,293 thousand and should be recognized as "accrued expenses and other current liabilities".

The pricing and other terms for sales to related parties were not materially different from those with unrelated customers. The collection terms for sales to unrelated customers were next month-end 30 to 120 days. The collection terms for sales to related parties have been adjusted to next month-end 30 to 150 days from next month-end 30 to 120 days since June 2008.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Purchases

	2008		2007	
	Amount	% of net purchases	Amount	% of net purchases
GSIT	\$ -	-	66,148	0.51
INPAQ	-	-	9,005	0.07
EETI	105,353	0.99	127,128	0.99
Others	456	0.01	7,567	0.06
	\$ 105,809	1.00	209,848	1.63

The Company did not purchase similar products from unrelated vendors; therefore, it was unavailable to compare the payment terms with related parties and unrelated vendors. The payment terms with unrelated customers and related parties were both month-end 30 to 150 days.

3. The remainders of notes and accounts receivable/payable

The remainders of year-ended receivables and payables caused by purchases and sales due to aforementioned and last fiscal year were as follows:

	12.31.2008		12.31.2007	
	Amount	%	Amount	%
Notes and accounts receivable:				
Holy Stone (Hong Kong)	\$ 221,014	7.50	257,835	7.52
Holy Stone (Shanghai)	528,159	17.93	504,550	14.71
INFORTECH International Trading	-	-	73,361	2.14
INFORTECH (CHINA)	105,132	3.57	-	-
Others	-	-	2,438	0.07
Less: allowance for doubtful accounts	(16,468)	(0.55)	(2,809)	(0.08)
	\$ 838,184	24.44	838,184	24.44

	12.31.2008		12.31.2007	
	Amount	%	Amount	%
Notes and accounts payable:				
EETI	\$ 18,579	1.79	31,433	2.79
GIGA	-	-	6,028	0.54
INPAQ	-	-	5,682	0.50
Others	-	-	5,071	0.45
	\$ 48,214	4.28	48,214	4.28

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4. Lease agreement

The Company leased buildings to HOLYGENE and other related parties, and rentals amounted to NT\$1,401 thousand and NT\$2,675 thousand and were recorded in the non-operating income and gains account. According to lease contracts, the aforementioned rentals were monthly received. As of December 31, 2008 and 2007, there rentals had been had been received.

5. Technology transfer contract

In May 2003, the Company made technology transfer contract of “BME MLCC” with HEC, and the contract amounted to NT\$66,408 thousand, or ¥215,000 thousand, recorded in other assets account. As of December 31, 2007, the asset had finished amortization. As of December 31, 2008 and 2007, there were still payables resulting from the contract amounted to NT\$18,094 thousand (¥58,500 thousand) and NT\$23,043 thousand (¥74,509 thousand).

6. Property transaction

In May 2008, the Company purchased telecommunication system for NT\$560 thousand from Holyoptics. As of December 31, 2008, the payment had been paid.

In January, March, April, July and October 2008, the Company acquired machinery and equipment for NT\$40,764 thousand, or ¥136,000 thousand from ALPHA. These transactions were recorded as items in the construction in progress and prepayments for equipment account and the machinery and equipment account. As of December 31, 2008, the payment had been paid.

In December 2008, the Company acquired machinery and equipment for NT\$1,866 thousand, or ¥6,475 thousand from HEC. This transaction was recorded as an item in the construction in progress and prepayments for equipment account. As of December 31, 2008, the payment had been paid.

In September 2008, the Company sold property, plant and equipment to Holy Stone (Hong Kong) for NT\$881 thousand. Gain on disposal amounted to NT\$114 thousand. As of December 31, 2008, the proceeds had been received.

In January and September 2008, the Company purchased cleanroom equipment and official equipment from Holyoptics for NT\$18,000 thousand and NT\$59 thousand, respectively. As of December 31, 2008, the payment had been paid.

In April 2007, the Company acquired machinery and equipment for NT\$1,896 thousand from IMT. As of December 31, 2007, the payment had been paid.

In July 2007, the Company purchased machinery and equipment in advance for NT\$1,784 thousand from HEC. As of December 31, 2008, the payment had been paid.

In September 2007, the Company purchased machinery and equipment for NT\$57,198 thousand, or ¥136,000 thousand from ALPHA. As of December 31, 2007, payables resulting from the transaction amounted to NT\$4,761 thousand.

In June 2007, the Company purchased R&D equipment and instruments from GemSOC for NT\$4,615 and NT\$624 thousand, respectively. As of December 31, 2007, the payment had been paid.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

In June 2007, the Company sold R&D equipment to EETI for NT\$165 thousand (pretax). Gain (loss) on disposal amounted to NT\$97 thousand. As of December 31, 2007, the proceeds had been received.

In September 2007, the Company sold equipment to Holy Stone (Shanghai) for NT\$1,000 thousand, or \$30,372. Gain (loss) on disposal amounted to NT\$90 thousand. As of December 31, 2007, the proceeds had been received.

7. Others

(1) During 2008, the Company paid commissions of NT\$30,468 thousand and NT\$11,145 thousand to MGT and HSE, respectively, for business promotion. The commissions were recorded in the selling and administrative account. As of December 31, 2008, the expenses had been paid.

(2) As of December 31, 2008 and 2007, receivables from related parties due to on behalf of the Company, other expenses and other expenditure, amounted to NT\$196 thousand and NT\$1,041 thousand, respectively. Payables from related parties were NT\$5,889 thousand as of December 31, 2007.

8. Endorsements/Guarantees

On December 31, 2008, the remainder of the endorsements/guarantees made by the Company for Martek was NT\$20,000 thousand.

9. Details on receivables from related parties on December 31, 2008 and 2007 were summarized as follows:

	<u>12.31.2008</u>	<u>12.31.2007</u>
Notes and accounts receivable	\$ 854,305	838,184
Other receivables	196	1,041
Allowance for doubtful accounts	<u>(16,468)</u>	<u>(2,809)</u>
	<u>\$ 838,033</u>	<u>836,416</u>

10. Details on payables from related parties on December 31, 2008 and 2007 were summarized as follows:

	<u>12.31.2008</u>	<u>12.31.2007</u>
Notes and accounts payable	\$ 18,579	48,214
Other payables	<u>18,094</u>	<u>28,932</u>
	<u>\$ 36,673</u>	<u>77,146</u>

5.3 Main Managers' Remuneration

Details on remuneration paid to directors, supervisors, president, and vice presidents in 2008 and 2007 were summarized as follows:

	<u>2008</u>	<u>2007</u>
Remuneration	\$ 26,202	43,806
Expense of execution	600	600
Employees' bonus	7,000	61,913

The aforementioned amount included directors' and supervisors' remuneration and estimated employees' bonus, and please refer to the description of the stockholders' equity item to get further information.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

6. Pledged Assets

As of December 31, 2008 and 2007, details on carrying amount of pledged assets as collaterals against bank loans were as follows:

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>Carrying amount</u>	
		<u>12.31.2008</u>	<u>12.31.2007</u>
Time deposits (recorded in the other financial assets-current account)	Import duties	\$ 37,482	44,781
Land	Short-term loans	75,891	75,891
Buildings	"	<u>7,047</u>	<u>7,360</u>
Total		<u><u>\$ 120,420</u></u>	<u><u>128,032</u></u>

7. Commitments and Contingencies

7.1 The outstanding letters of credit facilitate the Company's purchase of materials. As of December 31, 2008 and 2007, the Company's outstanding letters of credit amounted to NT\$79,437 thousand and NT\$221,647 thousand, respectively.

7.2 The contracted construction cost of the Company's Yilan factory in progress was NT\$341,800 thousand. As of December 31, 2008, NT\$105,631 thousand of payment had been paid and recorded in the construction in progress and prepayments for equipment account.

8. Significant Disaster Loss: None.

9. Significant Subsequent Events: None.

10. Others

10.1 Personal costs, depreciation, and amortization were summarized by functions as the follows:

Functions	2008			2007		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personal Costs						
Payroll (Note 1)	213,259	356,692	569,951	174,732	274,947	449,679
Labor and health insurance	18,649	20,056	38,705	15,781	19,572	35,353
Pension expense	12,932	15,247	28,179	11,364	12,720	24,084
Other (Note 2)	5,875	11,677	17,552	17,004	11,330	28,334
Depreciation	190,970	35,239	226,209	156,308	35,017	191,325
Amortization	-	-	-	-	16,602	16,602

Note 1: Including employees' bonus of NT\$49,838 thousand in 2008.

Note 2: Including meal expenses and training expenses.

10.2 Reclassification

Figures of 2007 financial statements were reclassified properly in order to match those of 2008 financial statements.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

11. Additional Disclosures

11.1 Significant Transaction Information

In 2008, the additional disclosures required by the Regulations Governing the Preparation of Financial Report were as follows:

1. Financing provided: None;
2. Endorsement/guarantee provided:

No.	Endorser/ Guarantor Company	Endorsee/Guarantee		Quotas of Endorsement/ Guarantee for Single Enterprise	Endorsement/ Guarantee Balance, Highest	Endorsement/ Guarantee Balance, Ended	Endorsement /Guarantee Warranted by Property	Accumulated Endorsement/ Guarantee amounts to Financial Statement's Net Value Rate	Highest Quotas of Endorsement/ Guarantee
		Company	Nature of Relationships						
0	Holy Stone	Martek Co., Ltd.	Subsidiary	1,461,225	20,000	20,000	-	0.27%	3,653,064

Note: Quota of Endorsement/Guarantee for Single Enterprise was 20% of the Company's net value, and the highest quota was 50% of the net value.

3. Marketable securities held:

Unit: thousand shares

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2007				Note
				Shares (unit)	Carrying Value	Percentage of Ownership	Market Value (Net Asset Value)	
The Company	Yuanta Wan-tai BOND Fund	-	Financial assets at fair value through profit or loss-current-open-ended fund	2,774	40,026	-	40,026	-
The Company	GPPC Corporate Bond A	-	"	150	15,000	-	15,000	-
The Company	TA CHEN STAINLESS PIPE Corporate Bond A	-	"	100	10,000	-	10,000	-
The Company	GMTC Corporate Bond B	-	"	673	67,294	-	67,294	-
The Company	China Airlines Corporate Bond C	-	"	450	45,000	-	45,000	-
The Company	ASUSTEK Corporate Bond A	-	"	200	20,000	-	20,000	-
The Company	CB 2 (Forward Electronics)	-	"	300	23,850	-	23,850	-
The Company	CB 1 (Uni-president)	-	"	40	3,778	-	3,778	-
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of H.S.I	Long-term equity investment	11,500	153,336	100.00	153,336	-
The Company	Holy Stone Holdings Co., Ltd. Stock	"	"	26,976	891,368	100.00	891,368	-
The Company	UHOLY Investments Co., Ltd.	"	"	22,500	272,168	57.69	270,790	-
The Company	Taiwan Mahk Opt Co., Ltd. Stock	Investee company recognized under equity method	"	176	11,611	70.56	17,442	-
The Company	Kallex Co., Ltd. Stock	"	"	6,723	46,791	67.77	46,791	-
The Company	Martek Co., Ltd. Stock	Subsidiary	"	2,000	40,739	100.00	40,739	-
The Company	JungChan Investments Co., Ltd. Stock	"	"	20,000	253,352	100.00	253,352	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets-noncurrent	1,351	125,430	-	125,430	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	"	7,500	300,000	-	300,000	-
The Company	eGalax_eMPIA Technology Inc. Stock	-	"	2,097	46,872	-	46,872	-
The Company	INPAQ Technology Co., Ltd. Stock	-	"	1,063	13,193	-	13,193	-

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital:

Unit: thousand shares/NT\$ in thousand

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationships	Beginning Balance		Acquisition		Disposal			Valuation Gain (Loss)	Ending Balance		
					Share	Amount	Share	Amount	Share	Amount	Carrying Value		Gain (Loss) on Disposal	Share	Amount
The Company	Fuh Hwa Bond Fund	Financial assets at fair value through profit or loss - current-open-ended fund	-	-	-	-	52,219	710,000	52,219	711,559	710,000	1,559	-	-	-
The Company	Mega Diamond Bond Fund	"	-	-	-	-	131,467	1,545,000	131,467	1,546,687	1,545,000	1,687	-	-	-
The Company	IBT Ta-Chong Bond Fund	"	-	-	-	-	34,429	458,000	34,429	458,682	458,000	682	-	-	-
The Company	Cathay Bond Fund	"	-	-	-	-	20,420	240,000	20,420	240,143	240,000	143	-	-	-
The Company	Yuanta Wan-tai Fund	"	-	-	-	-	21,119	302,000	18,345	262,629	262,000	629	26	2,774	40,000
The Company	IBT 1699 Bond Fund	"	-	-	-	-	67,001	850,000	67,001	850,374	850,000	374	-	-	-

5. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: None;
6. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None.
7. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital:

Unit: NT\$ in thousand

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payment or Receivable		Note
			Purchases /Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Company	Holy Stone Enterprise (H.K)	Subsidiary of H.S	Sales	670,309	5.25%	Next month-end 120 days	-	-	221,014	7.50	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	Sales	1,041,811	8.15%	Next month-end 150 days	-	-	528,159	17.93	-
The Company	INFORTECH (CHINA) Co., Ltd.	Subsidiary of H.S.I	Sales	188,106	1.47%	Month-end 120 days	-	-	105,132	3.57	-

8. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital:

Unit: NT\$ in thousand

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts	Note
					Amount	Action Taken			
The Company	Holy Stone Enterprise (H.K)	Subsidiary of H.S	221,014	2.80	-	-	87,591	4,420	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	528,159	2.02	-	-	194,532	10,583	-
The Company	INFORTECH (CHINA) Co., Ltd.	Subsidiary of H.S.I	105,132	3.58	-	-	56,030	2,103	-

9. Derivatives transaction:

Please refer to "Financial Statements Notes 4.3" to get the Company's derivatives transaction information in 2008.

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

11.2 Information about derivatives of investees over which the Company has a controlling interest:

Related information on investee companies of 2008 was as follows:

1. Names, locations, and related information of investees on which the Company exercises significant influence:

Unit: thousand shares, JPY, USD, CNY, GBP, CHF

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of Dec. 31, 2008			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				Dec. 31, 2008	Dec. 31, 2007	Shares	%	Carrying Value			
The Company	Holy Stone Enterprise (H.K) Co., Ltd.	Hong Kong	MLCC and electronic components trading	49,046	49,046	11,500	100.00%	153,336	6,667	6,667	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	SAMORA	Investment activities	841,951	250,701	26,976	100.00%	891,368	17,527	17,527	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	272,168	(16,802)	(9,693)	Subsidiary of the Company
The Company	Holyoptics Enterprise Co., Ltd.	Taipei City	Information storage and equipment manufacturing	136,436	160,992	750	50.01%	-	4,733	2,378	Subsidiary of the Company
The Company	Taiwan Mahk Opt Co., Ltd.	Yilan County	Miniature camera and components manufacturing and selling. Optical machinery and precision machinery	75,350	75,350	754	70.56%	11,611	14,474	10,213	Subsidiary of the Company
The Company	Kallex Co., Ltd.	Taoyuan County	General instrument manufacturing, porcelain and ceramic products manufacturing, precision instrument manufacturing, and international trading business	71,950	71,950	6,723	67.77%	62,684	(6,715)	(4,551)	Subsidiary of the Company
The Company	Martek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	-	2,000	100.00%	40,739	20,739	20,739	Subsidiary of the Company
The Company	JungChan Investments Co., Ltd.	Taipei City	Investment activities	200,000	-	200,000	100.00%	253,352	53,352	53,352	Subsidiary of the Company
The Company	OHGA Electronics Co., Ltd.	Taipei County	Electronic appliances and audio-visual electronics manufacturing	332,640	-	12,600	70%	389,077	118,365	56,437	Subsidiary of JungChan Investments Co., Ltd.
Holy Stone Holdings	HEC JAPAN TECHNOLOGY Co., Ltd.	Japan	Electronic components trading	USD 93,127	USD 93,127	0.2	100.00%	USD 618,903	JPY (12,331,742)	USD (119,741)	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	USD 6,900,000	USD 4,800,000	6,900	100.00%	USD 6,728,914	USD (640,622)	USD (640,622)	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings	Holy PAQ CORPORATION	CAYMAN	Investment activities	USD 1,200,000	USD 1,200,000	1,200	100.00%	USD 473,055	USD (83,720)	USD (83,720)	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings	Green Glory Holdings Ltd.	SOMOA	Investment activities	USD 2,140,624	USD 1,960,624	2,210	100.00%	USD 1,001,042	USD 95,846	USD 95,846	Subsidiary of Holy Stone Investments Co., Ltd.
Holy Stone Holdings	MAYATEK Co., Ltd.	Belize	Electric appliances, precision instrument, computers and machinery and equipment selling	USD 13,976,000	-	2,500	100.00%	USD 15,469,207	*	*	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Investments Co., Ltd.	Holy Stone international trading (Shanghai) Co., Ltd.	Shanghai, CHINA	Capacitors selling	USD 4,750,000	USD 4,750,000	4,010	100.00%	USD 4,889,479	CNY (1,828,558)	USD (263,312)	Subsidiary of Holy Stone Investments Co., Ltd.
Holy Stone Investments Co., Ltd.	INFORTECH (CHINA) CO., LTD.	Shanghai, CHINA	Electronic components selling	USD 2,100,000	-	2,100	100.00%	USD 1,797,767	CNY (2,609,111)	USD (375,712)	Subsidiary of Holy Stone Investments Co., Ltd.
INFORTECH (CHINA) CO., LTD.	Stock of Zierra (Wuhan) Electronic Tech Co., Ltd.	CHINA	Electronic components selling	CNY 1,500,000	-	1,500	100.00%	CNY 1,360,603	CNY (139,397)	CNY (139,397)	Subsidiary of INFORTECH (CHINA)
Holy PAQ CORPORATION	HolyPAQ (Dongguan) Corporation	Dongguan, Guangdong province, CHINA	Capacitors manufacturing and selling	USD 1,000,000	USD 1,000,000	1,000	100.00%	USD 436,073	CNY (561,938)	USD (80,919)	Subsidiary of Holy PAQ CORPORATION
Green Glory Holdings	INFORTECH International Trading (Shanghai) Ltd.	Shanghai, CHINA	Electronic components developing and selling	USD 1,000,000	USD 1,000,000	1,000	100.00%	USD 803,268	CNY 2,133,164	USD 307,176	Subsidiary of Green Glory Holdings
Green Glory Holdings	Milestone Global Technology Ltd.	U.S.A	Electronic components developing and selling	USD 500,000	USD 500,000	500	100.00%	USD 51,994	USD (16,529)	USD (15,329)	Subsidiary of Green Glory Holdings
Green Glory Holdings	HOLYSTONE (EUROPE) LTD.	England	Electronic retailing and trading	USD 686,873	USD 507,023	350	100.00%	USD 124,345	GBP (105,695)	USD (195,366)	Subsidiary of Green Glory Holdings
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co., Ltd.	Taipei City	Western medicine wholesaling and medical instruments wholesaling	64,505	64,505	6,500	49.62%	22,022	(51,954)	(25,780)	UHOLY's investee company recognized under equity method
Holy Stone Healthcare Co., Ltd.	HOLYGENE CORPORATION	British Virgin Islands	Investment activities	USD 996,000	USD 996,000	996	33.20%	(2,537)	USD (1,044,816)	USD (11,093)	Subsidiary of Holy Stone Healthcare Co., Ltd.
Holy Stone Healthcare Co., Ltd.	MDT INTL SA	Switzerland	Medical instruments trading	USD 850,000	USD 850,000	850	50.00%	-	CHF 163,605	USD (17,206)	Subsidiary of Holy Stone Healthcare Co., Ltd.
Holy Stone Healthcare Co., Ltd.	GLOBAL SEARCH HOLDINGS LTD.	SOMOA	Investment activities	USD 150,000	-	150	100.00%	4,893	USD (795)	USD (25)	Subsidiary of Holy Stone Healthcare Co., Ltd.
HOLYGENE CORPORATION	HOLYGENE BIOTECH CO., LTD.	Taipei City	Medicine analysis and biotechnology service industry	USD 301,037	USD 301,037	1,000	100.00%	USD (174,745)	USD (4,181)	USD (122,289)	Subsidiary of HOLYGENE CORPORATION

Note: The subsidiaries have recognized relevant income.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

2. Financing provided:

No.	Company	Financing provided company	Current subject	Current highest balance	Ending balance	Interest rate collars	The nature of financing provided	Business transaction amount	Essential reasons for short-term financing	Allowance for doubtful accounts	Collateral		Quota of financing provided for single	Total Quota of financing provided
											Name	Value		
	Holy Stone Healthcare Co. Ltd.	HOLYGENE CORPORATION	Stockholders' current account	1,700	1,700	3~5%	Short-term financing capital	-	Operating turnover	-		-	3,994	13,315
	Holy Stone Healthcare Co. Ltd.	HOLYGENE BIOTECH CO., LTD.	Stockholders' current account	1,000	1,000	3~5%	Short-term financing capital	-	Operating turnover	-		-	3,994	13,315

Remarks: Total quota of Holy Stone Healthcare's financing provided was at most 30% of its net value. Quota of financing provided for single was at most 30% of its total quota.

3. Endorsement/guarantee provided: None;

4. Marketable securities held:

Unit: NT\$ in thousand/thousand shares

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2007				Note
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
Holy Stone Holdings Co., Ltd.	Stock of HEC JAPAN TECHNOLOGY Co., Ltd.	Subsidiary of H.S.H	Long-term equity investment	0.2	USD 618,903	100.00	JPY 55,857,649	-
Holy Stone Holdings Co., Ltd.	Stock of Holy Stone Investments Co., Ltd	Subsidiary of H.S.H	Long-term equity investment	6,900	USD 6,728,914	100.00	USD 6,909,450	-
Holy Stone Holdings Co., Ltd.	Stock of Holy PAQ Corporation	Subsidiary of H.S.H	Long-term equity investment	1,200	USD 473,055	100.00	USD 473,055	-
Holy Stone Holdings Co., Ltd	Stock of Green Glory Holdings	Subsidiary of H.S.H	Long-term equity investment	2,210	USD 1,001,042	100.00	USD 839,419	-
Holy Stone Holdings Co., Ltd	Stock of MAYATEK CO., LTD.	Subsidiary of H.S.H	Long-term equity investment	2,500	USD 15,469,207	100.00	USD 3,310,371	-
Holy Stone Investments Co., Ltd	Stock of Holy Stone international trading (Shanghai) Co., Ltd.	Subsidiary of H.S.I	Long-term equity investment	4,010	USD 4,889,479	100.00	CNY 33,398,082	-
Holy Stone Investments Co., Ltd	Stock of INFORTECH (CHINA) CO., LTD.	Subsidiary H.S.I	Long-term equity investment	2,100	USD 1,797,767	100.00	CNY 12,279,829	-
INFORTECH (CHINA) CO., LTD.	Stock of Zierra (Wuhan) Electronic Tech Co. Ltd.	Subsidiary of G.G.H	Long-term equity investment	1,500	CNY 1,360,603	100.00	CNY 1,360,603	-
Holy PAQ CORPORATION	Stock of HolyPAQ (Dongguan) Corporation	Subsidiary of H.P	Long-term equity investment	1,000	USD 436,073	100.00	CNY 2,978,641	-
Green Glory Holdings	Stock of INFORTECH International Trading (Shanghai) Ltd.	Subsidiary of G.G.H	Long-term equity investment	1,000	USD 803,268	100.00	CNY 5,486,804	-
Green Glory Holdings.	Milestone Global Technology Ltd.	Subsidiary of G.G.H	Long-term equity investment	500	USD 51,994	100.00	USD 51,994	-
Green Glory Holdings.	HOLYSTONE (EUROPE) LTD.	Subsidiary of G.G.H	Long-term equity investment	350	USD 124,345	100.00	GBP 85,826	-
UHOLY Investments Co. Ltd.	Fuh Hwa Fund	-	Financial assets at fair value through profit or loss - current	3,138	43,225	-	43,225	-
UHOLY Investments Co. Ltd.	Stock of CHENG SHIN	-	Financial assets at fair value through profit or loss - current	58	1,622	-	1,622	-
UHOLY Investments Co. Ltd.	Stock of CReTE	-	Financial assets at fair value through profit or loss - current	2	101	-	101	-
UHOLY Investments Co. Ltd.	Stock of NAK	-	Financial assets at fair value through profit or loss - current	50	1,248	-	1,248	-
UHOLY Investments Co. Ltd.	TSEC Taiwan 50	-	Financial assets at fair value through profit or loss - current	1	27	-	27	-
UHOLY Investments Co. Ltd.	Stock of Holy Stone Healthcare Co. Ltd.	Subsidiary. Of U.I	Long-term equity investment	6,500	22,022	49.62	22,022	-
UHOLY Investments Co. Ltd.	Stock of EETI	-	Available-for-sale financial assets - noncurrent	5,163	115,400	-	115,400	-
UHOLY Investments Co. Ltd.	Stock of INPAQ Technology Co., Ltd.	-	Available-for-sale financial assets - noncurrent	8,062	99,973	-	99,973	-

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2007				Note
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
UHOLY Investments Co. Ltd.	Stock of Innovision Venture Capital Corp.		Financial assets carried at cost - noncurrent	8,900	89,000	19.78	89,000	-
UHOLY Investments Co. Ltd.	Preferred stock of C2 MICROSYSTEMS INC.	-	Financial assets carried at cost - noncurrent	1,200	29,809	3.20	29,809	-
UHOLY Investments Co. Ltd.	Stock of Zelltek Technology Corp.	-	Financial assets carried at cost - noncurrent	859	19,757	6.61	19,757	-
UHOLY Investments Co. Ltd.	Stock of Metanoia Communication Inc. Stock	-	Financial assets carried at cost - noncurrent	918	2,628	2.62	2,628	-
UHOLY Investments Co. Ltd.	Stock of Innostone Venture Capital Corp.	-	Financial assets carried at cost - noncurrent	5,900	59,000	19.67	59,000	-
Holy Stone Healthcare Co., Ltd. (H.H)	HOLYGENE CORPORATION	Subsidiary of H.H	Long-term equity investment	996	(2,537)	33.20	USD (16,116)	-
Holy Stone Healthcare Co., Ltd.	MDT INT'L SA	Subsidiary of H.H	Long-term equity investment	850	-	50.00	CHF 674,738	-
Holy Stone Healthcare Co., Ltd.	GLOBAL SEARCH HOLDING LTD.	Subsidiary of H.H	Long-term equity investment	150	4,894	100.00	USD 149,205	-
Holy Stone Healthcare Co., Ltd.	Fuh Hwa Bond	-	Financial assets at fair value through profit or loss - current	2,465	33,948	-	33,948	-
HOLYGENE CORPORATION (H.G)	HOLYGENE BIOTECH CO., LTD.	Subsidiary of H.G	Subsidiary of HOLYGENE CORPORATION	1,000	USD (174,745)	100.00	(5,732)	-
JungChan Investments Co., Ltd (J.C)	OHGA Electronics Co., Ltd.	Subsidiary of J.C	Long-term equity investment	12,600	389,077	70.00	221,972	-
JungChan Investments Co., Ltd	Yuanta Wan-tai Fund	-	Financial assets at fair value through profit or loss - current	465	6,713	-	6,713	-
OHGA Electronics Co., Ltd.	HSBC NTD MONEY MANAGEMENT FUND	-	Financial assets at fair value through profit or loss - current	1,308	40,069	-	40,069	-
OHGA Electronics Co., Ltd.	Yuanta Wan-tai Fund	-	Financial assets at fair value through profit or loss - current	695	20,043	-	20,043	-

5. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: None;
6. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: None;
7. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
8. Purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital:

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Holy Stone Enterprise (H.K) Co., Ltd.	The Company	Subsidiary of H.S	Purchases	670,309	100.00 %	Next month-end 120 days	-	-	(221,014)	100.00 %	-
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Subsidiary of H.S.I	Purchases	1,041,811	100.00 %	Next month-end 150 days	-	-	(528,159)	100.00 %	-
INFORTECH (CHINA) CO., LTD.	The Company	Subsidiary of H.S.I	Purchases	188,106	100.00 %	Month-end 120 days	-	-	(105,132)	100.00 %	-

9. Receivables from related parties amounted to at least NT\$100 million or 20% of the paid-in capital: None;
10. Derivatives transaction: None.

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

11.3 Information on Investment in Mainland China

1. Status of investment

Unit: \$

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method	Accumulated Remittance as of Dec. 31, 2007	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2008	Ownership Held by The Company (Direct and Indirect)	Current Recognized Investment Gain (Loss)	Ending Balance of Investment	The Investment Gain (Loss) Remitted as of Dec. 31, 2008
					Remitted	Collected					
Holy Stone international trading (Shanghai) Co., Ltd.	Capacitors selling	USD 4,010,000	The Company set up a subsidiary in the third place to invest in Mainland China.	USD* 3,610,000	-	-	USD* 3,610,000	100%	USD (263,312)	USD 4,889,479	-
HolyPAQ (Dongguan) Corporation	Capacitors manufacturing and selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100%	USD (80,919)	USD 436,073	-
INFORTECH International Trading (Shanghai) Ltd.	Electronic components R&D and selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100%	USD 307,176	USD 803,268	-
INFORTECH (CHINA) CO., LTD.	Electronic components selling	USD 2,100,000		USD -	USD 2,100,000	-	USD 2,100,000	100%	USD (375,712)	USD 1,797,767	-

Note: Excluding USD400,000 of capitalization of profits.

2. Quota of investment in Mainland China

Accumulated remittance from Taiwan to Mainland China	The investment balance approved by Investment Commissions, Ministry of Economic Affairs	Investment in Mainland China according to Investment Commissions, Ministry of Economic Affairs
(USD 7,710,000) 252,888	(USD 8,110,000) 266,008	4,383,676

12. Segment Financial Information

12.1 Industry Financial Information

The Company operates in manufacturing and selling of IC, transistors, and capacitors. Since the Company mainly focuses on electronics industry, the disclosure of industry financial information is not applicable to the Company.

12.2 Geographic Information

The company has no foreign operating department.

12.3 Export Sales

Net export sales of the Company were NT\$10,349,931 thousand and NT\$9,811,746 thousand in 2008 and 2007, and the details were as follows:

<u>Area</u>	<u>2008</u>	<u>2007</u>
Europe	\$ 70,512	62,167
Americas	137,347	249,899
Asia	10,141,285	9,497,929
Others	<u>787</u>	<u>1,751</u>
Total	\$ <u>10,349,931</u>	<u>9,811,746</u>

12.4 Major Customers

The Company had no major customers representing at least 10% of gross sales.

Representation Letter

The entities that are required to be included in the combined financial statements of Holy Stone Enterprise Company Limited as of and for the year ended December 31, 2008, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Holy Stone Enterprise Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang

Date: March 2, 2009

Independent Auditors' Report

The Board of Directors and Shareholders
Holy Stone Enterprise Company Limited

We have audited the accompanying consolidated balance sheets of Holy Stone Enterprise Company Limited as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders equity and cash flows for the years then ended. 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. Some financial statements of the subsidiaries combined in these consolidated financial statements are based on other independent auditors' reports, in which the total assets were NT\$3,396,023 thousand and NT\$2,217,201 thousand as of December 31, 2008 and 2007, respectively, a 29.49 percent and 15.27 percent of total consolidated assets; consolidated revenues of 2008 and 2007 totaled NT\$3,553,436 thousand and NT\$2,747,002 thousand, respectively, a 24.85 percent and 17.26 percent of total consolidated revenues. Furthermore, as of December 31, 2008 and 2007, the long-term equity investment amounts accounted for under equity method were audited by other CPA, totaled (NT\$2,537) thousand and NT\$8,839 thousand, and the related net investment loss of NT\$6,534 thousand and NT\$33,297 thousand for the year ended December 31, 2008 and 2007. As described in Note 11, the related information of investee companies recognized for certain investee company accounted for under the equity method was based on the financial statements not audited by KPMG.

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 consolidated financial position of Holy Stone Enterprise Company Limited as of December 31, 2008 and 2007, and the results of their consolidated operations and their consolidated 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 with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

Commencing from January 1, 2008, the Company and its subsidiaries adopted Interpretation 2007-052, issued by the Accounting Research and Development Foundation of the Republic, to classify, measure, and disclose Bonuses to Employees, Directors and Supervisors. The influence on consolidated financial statement made by this change in accounting standard was discussed in Note 3.

Taipei, Taiwan
Republic of China

March 2, 2009

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2008 and 2007
(Expressed in Thousands of New Taiwan Dollars)

Assets	12.31.2008		12.31.2007		Liabilities and stockholders' equity	12.31.2008		12.31.2007	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents	\$ 1,656,369	14	2,963,729	20	Short-term loans	\$ 656,969	6	785,387	5
Financial assets at fair value through profit or loss-current	376,607	3	543,416	4	Notes and Accounts Payable	1,267,295	11	1,407,361	11
Available-for-sale financial assets-current	-	-	100,687	1	Payables to related parties	18,579	-	44,698	-
Notes and accounts receivable, net	3,221,963	28	3,999,140	28	Income tax payable	45,862	-	150,419	1
Other financial assets-current	123,871	1	139,769	1	Accrued expenses and other current liabilities	540,191	5	641,144	4
Inventories, net	1,967,313	17	2,158,832	15	Current portion of bonds payable	126,800	1	204,400	1
Prepaid expenses and other current assets	179,020	2	269,341	2	Current portion of long-term debt	51,000	-	-	-
Total current assets	7,525,143	65	10,174,914	71	Total current liabilities	2,706,696	23	3,233,409	22
Funds and investments:					Long-term liabilities				
Available-for-sale financial assets-noncurrent	681,997	6	412,183	3	Bonds payable	-	-	89,448	1
Financial assets carried at cost-noncurrent	200,193	2	276,570	2	Long-term debt	1,137,250	10	11,239	-
Long-term equity investments under equity method	-	-	13,716	-	Total long-term liabilities	1,137,250	10	100,687	1
Other financial assets-noncurrent	-	-	11,296	-	Other liabilities:				
Total funds and investments	882,190	8	713,765	5	Accrued pension liabilities	12,740	-	6,442	-
Property, plant and equipment:					Other liabilities	5,546	-	22,157	-
Land	441,288	3	637,268	4	Total other liabilities	18,286	-	28,599	-
Buildings	894,040	8	1,339,217	9	Total liabilities	3,862,232	33	3,362,695	23
Machinery and equipment	1,455,490	13	2,487,238	17	Stockholders' equity:				
Leasing assets	71,071	1	71,071	-	Common stock	2,806,456	24	2,703,274	19
Other equipment	306,880	3	503,551	3	Capital surplus	2,741,791	24	2,747,093	19
Subtotal	3,168,769	28	5,038,345	33	Retained earnings:				
Less: Accumulated depreciation	(1,001,704)	(9)	(1,656,314)	(11)	Legal reserve	624,427	5	505,526	3
Accumulated Impairment	(759)	-	(39,601)	-	Unappropriated earnings	1,096,352	10	1,499,846	10
Construction in progress and prepayments for equipment	360,456	3	161,739	1		1,720,779	15	2,005,372	13
Net property, plant and equipment	2,526,762	22	3,504,169	23	Others:				
Intangible assets	565,987	5	-	-	Cumulative translation adjustments	73,076	1	6,394	-
Other assets	13,898	-	128,135	1	Net loss unrecognized as pension cost	(6,406)	-	-	-
					Unrealized gain or loss on financial instruments	(29,569)	-	83,013	1
						37,101	1	89,407	1
					Treasury stock	-	-	(14,568)	-
					Equity attributable to stockholders of the parent	7,306,127	64	7,530,578	52
					Minority interest	345,621	3	3,627,710	25
					Total stockholders' equity	7,651,748	67	11,158,288	77
					Commitments and contingencies				
Total assets	\$ 11,513,980	100	14,520,983	100	Total liabilities and shareholders' equity	\$ 11,513,980	100	14,520,983	100

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES
Consolidated Statements of Income
For the years ended December 31, 2008 and 2007

(Expressed in Thousands of New Taiwan Dollars, except earnings per share)

	2008		2007	
	Amount	%	Amount	%
Gross sales	\$ 14,456,515	101	16,149,112	101
Less: Sales returns and allowances	(160,679)	(1)	(236,966)	(1)
Net sales	14,295,836	100	15,912,146	100
Cost of goods sold	(12,227,160)	(86)	(12,701,290)	(80)
Realized gross profit	2,068,676	14	3,210,856	20
Operating expenses:				
Selling and administrative	(1,006,414)	(7)	(998,135)	(6)
Research and development	(132,975)	(1)	(313,826)	(2)
	(1,139,389)	(8)	(1,311,961)	(8)
Operating income	929,287	6	1,898,895	12
Non-operating income and gains:				
Interest income	21,867	-	26,953	-
Dividend income	33,520	-	21,135	-
Gain on disposal of property, plant and equipment	-	-	8,335	-
Gain on disposal of investments	52,697	-	89,939	1
Foreign exchange gain, net	98,840	1	17,768	-
Gain on valuation of financial liability	-	-	1,021	-
Others	28,258	-	37,888	3
	235,182	1	203,039	4
Non-operating expenses and losses:				
Interest expenses	(38,896)	-	(47,758)	-
Investment loss recognized under equity method	(6,534)	-	(31,942)	-
Losses on inventory valuation and obsolescence	(133,394)	1	(42,849)	-
Loss on disposal of property, plant and equipment	(45,878)	-	-	-
Impairment loss	(60,520)	-	(93,915)	1
Valuation loss on financial instruments	(3,607)	-	(6,894)	-
Others	(45,027)	-	(50,274)	-
	(333,856)	(1)	(273,632)	1
Consolidated income before income tax	830,613	6	1,828,302	15
Income tax expense	(177,770)	(1)	(329,394)	(2)
Consolidated net Income	\$ 652,843	5	1,498,908	13
Attributable to:				
Stockholders of the parent	\$ 674,497	5	1,189,007	11
Minority interest	(21,654)	-	309,901	2
	\$ 652,843	5	1,498,908	13

	Before income tax	After income tax	Before income tax	After income tax
Earnings per share (NT Dollars)				
Basic earnings per share	\$ 2.91	2.41	5.52	4.45
Basic earnings per share – retroactive			\$ 5.35	4.31
Diluted earnings per share	\$ 2.83	2.34	5.33	4.30
Diluted earnings per share – retroactive			\$ 5.18	4.17

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2008 and 2007
(Expressed in Thousands of New Taiwan Dollars)

	Retained Earnings					Others			Treasury stock	Minority interest	Total shareholders' equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain or loss on financial instruments			
Balance on January 1, 2007	\$ 2,459,742	2,546,528	391,599	293	1,340,863	2,776	-	56,808	(30,331)	2,293,768	9,062,046
Appropriation of prior year's earnings											
Legal reserve	-	-	113,927	-	(113,927)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(293)	293	-	-	-	-	-	-
Stock dividends to stockholders	73,126	-	-	-	(73,126)	-	-	-	-	-	-
Stock dividends to employees as bonus	66,000	-	-	-	(66,000)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(731,264)	-	-	-	-	-	(731,264)
Employees bonus-cash	-	-	-	-	(20,000)	-	-	-	-	-	(20,000)
Directors and supervisors remuneration	-	-	-	-	(26,000)	-	-	-	-	-	(26,000)
Capital surplus transferred to capital stock	24,375	(24,375)	-	-	-	-	-	-	-	-	-
Repurchase of treasury stock	-	-	-	-	-	-	-	-	(151,798)	-	(151,798)
Treasury stock sold to employees	-	(5)	-	-	-	-	-	-	165,755	-	165,750
Convertible bonds converted into common stock and capital surplus	76,936	226,164	-	-	-	-	-	-	-	-	303,100
Exercise of employee stock options	3,095	3,745	-	-	-	-	-	-	-	-	6,840
Adjustment for available-for-sale financial assets	-	-	-	-	-	-	-	26,205	-	-	26,205
Cumulative translation adjustments	-	-	-	-	-	3,618	-	-	-	-	3,618
Adjustment on long-term equity investments	-	(4,964)	-	-	-	-	-	-	-	-	(4,964)
Subsidiary trading in parent stocks	-	-	-	-	-	-	-	-	1,806	-	1,806
Change in minority interest	-	-	-	-	-	-	-	-	-	1,024,041	1,024,041
Net income for 2007	-	-	-	-	1,189,007	-	-	-	-	309,901	1,498,908
Balance on December 31, 2007	2,703,274	2,747,093	505,526	-	1,499,846	6,394	-	83,013	(14,568)	3,627,710	11,158,288
Appropriation of prior year's earnings											
Legal reserve	-	-	118,901	-	(118,901)	-	-	-	-	-	-
Stock dividends to stockholders	27,035	-	-	-	(27,035)	-	-	-	-	-	-
Stock dividends to employees as bonus	56,500	-	-	-	(56,500)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(811,055)	-	-	-	-	-	(811,055)
Employees bonus-cash	-	-	-	-	(37,500)	-	-	-	-	-	(37,500)
Directors and supervisors remuneration	-	-	-	-	(27,000)	-	-	-	-	-	(27,000)
Convertible bonds converted into common stock and capital surplus	19,647	52,653	-	-	-	-	-	-	-	-	72,300
Net loss not recognized as pension cost	-	-	-	-	-	-	(6,406)	-	-	-	(6,406)
Adjustment for available-for-sale financial assets	-	-	-	-	-	-	-	(50,379)	-	-	(50,379)
Cumulative translation adjustments	-	-	-	-	-	66,682	-	-	-	-	66,682
Adjustment on long-term equity investments	-	(57,955)	-	-	-	-	-	(62,203)	-	-	(120,158)
Subsidiary trading in parent stocks	-	-	-	-	-	-	-	-	14,568	-	14,568
Change in minority interest	-	-	-	-	-	-	-	-	-	(3,260,435)	(3,260,435)
Net income for 2008	-	-	-	-	674,497	-	-	-	-	(21,654)	652,843
Balance on December 31, 2008	\$ 2,806,456	2,741,791	624,427	-	1,096,352	73,076	(6,406)	(29,569)	-	345,621	7,651,748

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

(Expressed in Thousands of New Taiwan Dollars)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Consolidated income	\$ 652,843	1,498,908
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and Amortization	269,223	435,870
Other expenditures-accumulated depreciation on assets leased to others	448	448
Allowance for doubtful accounts	889	2,208
Loss on retirement of inventory	24,461	21,759
Unrealized inventory valuation loss	133,394	42,849
Loss (gain) on disposal of property, plant and equipment, net	45,878	(8,335)
Property, plant and equipment transferred to operating expenses	4,725	3,712
Cash dividends from investee's company accounted for using equity method	36,903	-
Investment loss (gain) accounted for using equity method, net	6,534	31,942
Gain on disposal of available-for-sale financial assets	(2,847)	(67,766)
Impairment loss	60,520	58,451
Deferred income tax expense (benefit)	(19,244)	(1,524)
Changes in assets and liabilities:		
Decrease in financial assets at fair value through profit or loss	166,809	181,019
Decrease (increase) in notes and accounts receivable	55,915	(126,276)
Decrease in receivables from related parties	-	42,065
Decrease (increase) in other financial assets	16,349	(20,964)
Decrease in inventories	(316,203)	(319,005)
Decrease (increase) in prepaid expenses and other current assets	60,106	(75,232)
Increase in other financial assets-noncurrent	-	(2,950)
Increase in notes and accounts payable	190,572	23,042
Decrease in payables from related parties	(18,749)	(14,914)
Decrease in income tax payable	(102,888)	(59,852)
Increase (decrease) in accrued expenses and other current liabilities	179,749	(38,195)
Decrease in accrued pension liabilities	(108)	(3,217)
Net cash provided from operating activities	<u>1,445,279</u>	<u>1,604,043</u>
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	72,416	36,977
Additions to property, plant and equipment fixed assets	(617,330)	(726,132)
Proceeds from available-for-sale financial assets-noncurrent	13,288	121,240
Acquisition of financial assets carried at cost-noncurrent	(63,482)	(86,640)
Decrease (increase) in other assets	32,206	(55,769)
Decrease in available-for-sale financial assets-current	-	20,313
Decrease in long-term investments	-	22,661
Increase in intangible assets	(565,987)	-
Net cash used in investing activities	<u>(1,128,889)</u>	<u>(667,350)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(128,418)	59,263
Decrease in bonds payable	-	(42,712)
Borrowing of long-term loans	1,189,000	21,848
Repayment of long term loans	(11,389)	-
Increase (decrease) in other liabilities	(16,611)	12,983
Cash dividends	(811,055)	(731,264)
Directors' and supervisors' remuneration & employees' bonus	(64,500)	(46,000)
Exercise of employee stock options	-	6,841
Purchase of treasury stock	-	(151,798)
Decrease in treasury stock	-	165,749
Net cash used in financing activities	<u>157,027</u>	<u>(705,090)</u>
Effect of consolidated entity changes in cash and cash equivalents	(1,771,353)	1,162,822
Effect of exchange rate changes in cash and cash equivalents	(9,424)	(5,970)
Net increase (decrease) in cash and cash equivalents	<u>(1,307,360)</u>	<u>1,388,455</u>
Cash and cash equivalents at beginning of period	<u>2,963,729</u>	<u>1,575,274</u>
Cash and cash equivalents at end of period	<u>\$ 1,656,369</u>	<u>2,963,729</u>
Supplemental disclosure of cash flow information		
Interest paid, excluding capitalization of interest	\$ 41,087	46,190
Income tax paid	\$ 392,467	395,069
Supplement information on non-cash investing and financing activities:		
Unrealized loss (gain) on available-for-sale financial instruments	\$ 112,582	(26,205)
Changes in capital reserve from long-term equity investments	\$ (57,955)	(4,964)
Current portion of bonds payable and long-term debt	\$ 177,800	204,400
Convertible bonds converted into common stock and capital surplus	\$ 72,300	303,100
Net loss not recognized as pension cost	\$ 6,406	-
Transfer of property, plant and equipment to other assets	\$ 87,481	8,124
Cash used in acquisition of property, plant and equipment:		
Acquisition of property, plant and equipment	\$ 624,031	765,750
Add: Payable at beginning of period	65,347	25,729
Less: Payable at end of period	(72,048)	(65,347)
Payment in cash	\$ 617,330	726,132

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang