



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

TWSE: 3026

Annual Report 2009

Printed on May 15, 2010

Taiwan Stock Exchange Market Observation Post System: <http://newmops.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, Branch Offices, and Factories

Headquarters:

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

Tel: 886-2-2627-0383

Yilan Branch Office:

Address: No.15, Sec. 2, Ligong 1st Rd., Wujie Township, Yilan County 268, Taiwan (R.O.C.)

Tel: 886-3-499-5288

Factories:

Address:

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

Tel: 886-3-499-5288

No.15, Sec. 2, Ligong 1st Rd., Letzer Industrial Park, Wujie Township, Yilan County 268, 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
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.....	26
3.5. 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 2009, should disclose his name, title, and term.....	26
3.6. Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders with 10% Shareholdings or More	27
3.7. Information on Our 10 Largest Shareholders Who are Related Parties to Each Other	27
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	28
4. The Status of Funds Raising	29
4.1. Capital and Shares	29
4.2. Issuance of Corporate Bonds.....	35
4.3. Preferred Shares	35
4.4. Issuance of American Depositary Shares.....	35
4.5. Status of Employee Stock Option Plan	36
4.6. Mergers and Acquisitions	37
4.7. Status of New Share Issuance in Connection with Acquisitions	37
4.8. Financing Plans and Implementation.....	37
5. Operational Highlights	38
5.1 Business Activities.....	38
5.2. Market and Sales Overviews	42

5.3. Employee Analysis	47
5.4. Environmental Awareness	48
5.5. Labor and Management Relationship	49
5.6. Major Contracts	49
6. Financial Highlights	50
6.1. Condensed Balance Sheet and Condensed Income Statement	50
6.2. Financial Analysis	52
6.3. Supervisors' Report	54
6.4. Financial Report of 2009	55
6.5. Consolidated Financial Report of 2009.....	55
6.6. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2009 and as of the date of this Annual Report.....	55
7. Financial Status and Operating Results Analysis and Risk Events	56
7.1. Financial Status	56
7.2. Operating Results.....	57
7.3. Cash Flow	58
7.4. Major Capital Expenditure	58
7.5. Investments Exceeding 5% of Company's Paid-in Capital in 2009	59
7.6. Risk Management.....	59
7.7. Other vital items.	61
8. Special Notes.....	62
8.1. Affiliates	62
8.2. Private Placement Securities in 2009 and as of the Date of this Annual Report.	64
8.3. Status of Holy Stone Common Shares Acquired, Disposed of, and Held by Subsidiaries in 2009 and as of the Date of this Annual Report	64
8.4. Other Necessary Supplement.....	64
8.5. Any Events in 2009 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	64

1. Letters to Shareholder

Dear Shareholders,

I deeply appreciate the efforts made by the operating team and all employees that Holy Stone not only got through the financial crisis but also expanded its group business in such adverse circumstances during 2009. On a consolidated basis, while revenues for 2009 totaled NT\$13.2 billion, a 7.5 percent decrease compared with the result in 2008, gross profit increased 9 percent to NT\$2.9 billion, with the gross margin of 15.8%, and operating income increased 30 percent to NT\$1 billion, with the operating margin of 7.6%. Net income was NT\$849 million, a nearly 26 percent increase compared with net income of NT\$674.5 million earned in 2008. Earnings per share was NT\$2.96.

A summary of the business plan for 2010

Holy Stone took over Miharu Plant of Hitachi Group and acquired assets and related technology of SMD Conductive Polymer Tantalum Capacitor in April 2010. This acquisition will help Holy Stone to increase revenues from manufacturing products, expand customer base and sales market, and become one of major tantalum capacitor suppliers in the world. Since there is no competitor making tantalum capacitor in Great China, Holy Stone plans to transfer the production technology of Miharu Plant to its Yilan Plant, Taiwan, to satisfy customer needs by capacity expansion. Sales and earnings from our special MLCC and customized MLCC are expected to grow significantly this year because we have received approvals and orders from some American and European customers. Furthermore, Holy Stone has finished the development of ceramic substrate for LED lighting use and received approvals from worldwide partners, and is going to raise the capacity quarterly under customers' requirement. Finally, OHGA Electronics, a subsidiary of Holy Stone and an energy saving system provider, keeps solid relationship with American & European customers and plans to boost its R&D team to develop more energy-efficient products.

The effect of external competition, legal environment, and overall business environment

In 2009, Holy Stone published its first online Corporate Social Responsibility Report 2008, and consecutively received CSR-related awards from *CommonWealth Magazine* during 2008-2010. Believing that GRI indicators benefit corporate operation, Holy Stone will continue to exercise CSR to achieve corporate sustainability.

Future development strategy

Holy Stone was founded in 1981 and transformed from a pure electronic components distributor into a professional passive components manufacturer with a worldwide sales network. In 2010, Holy Stone will strengthen competitiveness not only by means of core technology enhancement, professional recruitment, and owned-products expansion, but also through continuous energy-saving policy implement and green components and system development to exercise CSR.

Thanks every director, supervisor, shareholder, customer, and supplier for your long-term support. 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.

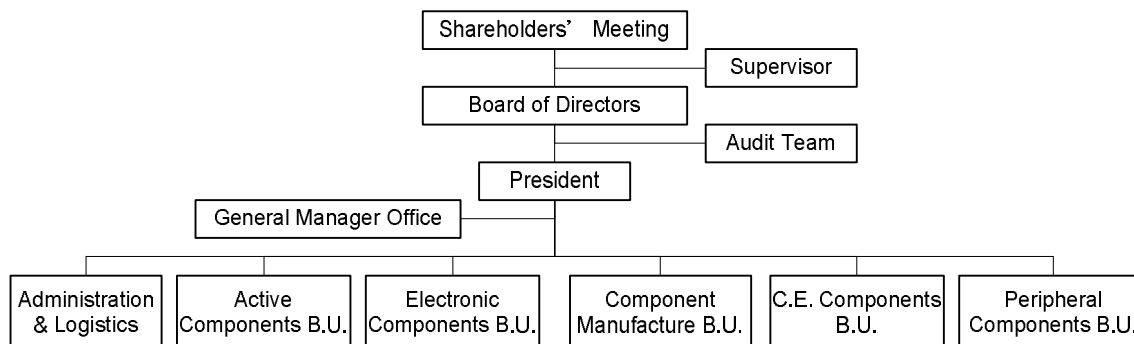
2.2. Milestones:

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.
Jun. 2009	Holy Stone’s Letzer factory was established.
Apr. 2010	Holy Stone started to manufacture tantalum capacitors.

3. Corporate Governance

3.1. An Organized System

3.1.1. Organization Structure:



3.1.2. Major Corporate Functions:

3.1.2.1. Audit Team:

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

3.1.2.2. President Secretariat Office:

- Corporate operation development, counsel, and management.

3.1.2.3. 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.

3.1.2.4. Electronic Components B.U.:

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

3.1.2.5. Component Manufacture B.U.:

- New products development, production, and manufacturing.

3.1.2.6. 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.

3.1.2.7. 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.

3.1.2.8. 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	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding	
						Shares	%	Shares	%	Shares	%
Chairman & President	Jing-Rong Tang		06/16/2009	3 yrs	09/09/1997	8,812,908	3.14	10,402,826	3.62	1,735,482	0.60
Director	Chyang Lo	Representative of LIN TAN INVESTMENT CO., LTD.	06/16/2009	3 yrs	01/01/2010	14,419,239	5.14	14,707,623	5.12	-	-
Director & Vice President	Yu-Min Wu				04/23/1999						
Director & Vice Executive President	Shih-Yun Sheng		06/16/2009	3 yrs	09/09/1997	4,094,407	1.46	4,400,525	1.53	2,460,257	0.86
Director & Vice President	Shao-Kuo Huang		06/16/2009	3 yrs	06/09/2006	2,550,277	0.91	2,675,312	0.93	2,868,557	1.00
Independent Director	Ken-Yi Cheng		06/16/2009	3 yrs	05/28/2003	-	-	-	-	-	-
Independent Director	Nai-Hua Wu		06/16/2009	3 yrs	05/28/2004	-	-	-	-	-	-
Supervisor	Tang-Ming Wu		06/16/2009	3 yrs	04/23/1999	847,385	0.30	864,332	0.30	-	-
Supervisor	Chung-Yi Yang		06/16/2009	3 yrs	04/23/1999	651,129	0.23	664,151	0.23	-	-
Supervisor	J.S. Chen		06/16/2009	3 yrs	06/16/2009	-	-	-	-	-	-

Note 1: Mainly publicly traded corporates and branch offices in China.

Note 2: Fang-Ming Lo, former representative of LIN TAN INVESTMENT CO., LTD., resigned on Dec 31, 2009, and Chyang Lo, the representative newly appointed by LIN TAN INVESTMENT CO., LTD., has assumed since Jan 1, 2010.

Major shareholder of juridical person shareholder

As of 04/16/2010

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 04/16/2010

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 04/16/2010

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		
				Title	Name	Relation
-	-	Bachelor, Electronic Engineering, Tatung University Manager, PIST	Representative of incorporated directors, EEIT	-	-	-
-	-	Master, Graduate Institute of Management Sciences Project Leader Engineer, Chung-Shan Institute of Science and Technology	-	-	-	-
-	-	Bachelor, Department of Accounting, Providence University	Supervisor, EEIT	-	-	-
-	-	Bachelor, Physics, Tamkang University Master of Business Administration, Macau University of Science and Technology	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.	-	-	-
-	-	Bachelor, Accounting, FCU Assistant Manager, Taiwan International Securities Group Vice General Manager, Hyield Venture Capital Director, Best Friend Management Consultants	Director, Grand Fortune Securities Director, WT Electronics Co. Director, Solytech Enterprise Co. Incorporated Director, Leader Electronic Co. Supervisor, Foxlink Image Technology Co., Ltd. Independent Supervisor, Prolific Technology Co.	-	-	-
-	-	Bachelor, Chemical Engineering, NCKU Vice General Manager, Uping International Co., LTD.	General Manager, Instant-Dict Co., Ltd	-	-	-
-	-	Bachelor, Accounting, FJCU	Accountant, HONESTY CPA FIRM	-	-	-
-	-	Bachelor, Business Administration, NTIT	-	-	-	-
-	-	Doctor of Laws, National Chengchi University EMBA, National Chengchi University Section Chief, Securities and Futures Bureau, Financial Supervisory Commission Executive Yuan, R.O.C. Manager, Taiwan Depository & Clearing Corporation	J.S. International Attorneys At Law Adjunct Associate Professor, Law Department of Central Police University Legal Consultant, Taiwan Depository & Clearing Corporation Legal Consultant, Taiwan Futures Exchange Legal Consultant, Gre Tai Securities Market Consultant, Taiwan Securities Association	-	-	-

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.:Chyang Lo	-	-	✓
Representative of LinTan Investments Co., Ltd.: Yu-Min Wu	-	-	✓
Shih-Yun Sheng	-	-	✓
Shao-Kuo Huang	-	-	✓
Ken-Yi Cheng	-	-	✓
Nai-Hua Wu	-	-	✓
Tang-Ming Wu	-	✓	✓
Chung-Yi Yang	-	-	✓
J.S. Chen	✓	✓	✓

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 Ken-Yi Cheng and Nai-Wua Wu serve independent directors or independent supervisors concurrently while they individually serve as Holy Stone's independent directors.

Note 3: Fang-Ming Lo, former representative of LIN TAN INVESTMENT CO., LTD., resigned on Dec 31, 2009, and Chyang Lo, the representative newly appointed by LIN TAN INVESTMENT CO., LTD., has assumed since Jan 1, 2010.

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	Name	Date Elected	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
Chairman & President	Jing-Rong Tang	08/01/1984	10,402,826	3.62	1,735,482	0.60	-	-
Director & Vice Executive President	Shih-Yun Sheng	04/01/2002	4,400,525	1.53	2,460,257	0.86	-	-
Vice President of Management Team	Yu-Min Wu	02/13/1984	960,329	0.33	16,430	0.01	-	-
Director & Vice President	Shao-Kuo Huang	07/01/2005	2,675,312	0.93	2,868,557	1.00	-	-
Vice President	Sheng-Yao Lu	07/01/2005	315,185	0.11	144,908	0.05	-	-
Vice President	I-Ta Lee	01/01/2006	176,372	0.06	-	-	-	-
Vice President	Hui-Bang Yeh	12/01/2007	223,296	0.08	-	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang	10/06/1997	186,967	0.07	-	-	-	-

Note: Mainly publicly traded corporates and branch offices in China.

Unit: Shares as of 04/16/2010

Selected Education, Past Positions	Selected Current Position at Other Companies (Note)	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, Physics, Tamkang University Project Leader Engineer, Chung-Shan Institute of Science and Technology	Representative of incorporated directors, Infortech (China) Co., Ltd Holy Stone international trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, Accounting, Providence University Accountant, KFIC	Supervisor, EEIT Representative of incorporated directors, Infortech (China) Co., Ltd. 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)		Profit Sharing (C)		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.: Yu-Min Wu (d) (Assumed on 6.16.2009)										
Director	Representative of LIN TAN INVESTMENT CO., LTD.: Jin-Ping Ma (e) (Resigned on 6.16.2009)	-	-	-	-	17,181	19,764	360	780	2.06	2.23
Director	Shao-Kuo Huang (f)										
Independent Director	Ken-Yi Cheng (g) (Assumed on 6.16.2009)										
Independent Director	Chu-Yang Chien (h) (Resigned on 6.16.2009)										
Independent Director	Nai-Hua Wu (i)										

Note 1: There was no retirement allowance paid during 2009.

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

Note 3: Net Income: 2009 net income.

Note 4: The Board adopted a proposal for 2009 employee profit sharing distribution of NT\$119,005 thousand. As of this Annual Report printed date, the employee profit sharing name list has not been decided.

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	d.e.g.h.i	d.g.h.i	e.g.h.i	g.h.i
NT\$2,000,000~NT\$5,000,000	b.c.f	b.c.e.f	d.f	e.f
NT\$5,000,000~NT\$10,000,000	a	a	b.c	b.c.d
NT\$10,000,000~NT\$15,000,000	-	-	a	a
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	9	9	9	9

Unit: Thousand shares/ NT\$ thousands As of 12/31/2009

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						
16,634	20,516	-	-	N.A	N.A	N.A	N.A	2,790	2,790	4.02	4.46	YES	

Remuneration Paid to Supervisors

Unit: NT\$ thousands As of 12/31/2009

Title	Name	Remuneration Paid to Supervisors						Total Remuneration (A+B+C) 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)		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)									None
Supervisor	Chung-Yi Yang (b)									
Supervisor	J.S. Chen (c) (assumed on 6.16.2009)	-	-	5,132	5,634	560	700	0.67	0.69	
Independent Supervisor	Ken-Yi Cheng (d) (resigned on 6.16.2009)									

Note 1: The proposed profit sharing of 2009 will be effected upon the approval of directors at the Board before the Shareholder Meeting in 2009.

Note 2: Net Income: 2009 net income

Remuneration Paid to Supervisors

Remuneration Paid to Supervisors of Holy Stone	Supervisors' Name	
	Total Remuneration (A+B+C)	
	From Holy Stone	From All Consolidated Entities
Under NT\$2,000,000	c.d	c.d
NT\$2,000,000~NT\$5,000,000	a.b	a.b
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	4	4

Compensation Paid to President and Vice Presidents

Unit: Thousand shares/ NT\$ thousands As of 12/31/2009

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)	24,189	26,119	-	-	-	-	N.A	N.A	N.A	N.A	2.85	2.84	3,580	3,580	YES
Vice Executive President	Fang-Ming Lo (b)															
Vice Executive President	Shih-Yun Sheng (c)															
Vice President	Yu-Min Wu (d)															
Vice President	Shao-Kuo Huang (e)															
Vice President	Sheng-Yao Lu (f)															
Vice President	I-Ta Lee (g)															
Vice President	Hui-Bang Yeh (h)															

Note 1: There was no retirement allowance during 2009.

Note 2: The Board adopted a proposal for 2009 employee profit sharing distribution of NT\$119,005 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	e	e
NT\$2,000,000~NT\$5,000,000	a.b.c.d.f.g.h	a.b.d.f.g.h
NT\$5,000,000~NT\$10,000,000	-	c
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	8	8

Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands As of 12/31/2009

	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	0	39,000	39,000	4.59
	Vice Executive President	Fang-Ming Lo				
	Vice Executive President	Shih-Yun Sheng				
	Vice President	Yu-Min Wu				
	Vice President	Shao-Kuo Huang				
	Vice President	Sheng-Yao Lu				
	Vice President	I-Ta Lee				
	Vice President	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 and Description on correlation between compensation paid process and administrative performance, as well as future risks

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

Title \ Item	The Percentage of Total Compensation to Net Income (%)			
	2009		2008	
	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities
Directors	4.02 (note)	4.46 (note)	4.45	5.10
Supervisors	0.67	0.69	0.57	0.59
President & Vice Presidents	2.85 (note)	2.84 (note)	3.16	3.77

Note: 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.

3.2.4.2. Correlation between compensation paid process and administrative performance, as well as future risks

Holy Stone's compensation paid to directors and supervisors contains attendance fees and profit sharings. According to No.20 of Holy Stone's Articles of Association, Directors' and supervisors' remuneration should not exceed 3 percent of any surplus in final account. Remuneration for president and vice presidents, with the position of operation management, contains salaries and bonus to employee under the consideration of which position one serves, what responsibility one takes, and how great one performs, referring to the industrial level.

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 8 (A) board of directors meetings in 2009. The directors' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Remarks
Chairman	Jing-Rong Tang	8	-	100.00	Renewal of office
Director	Representative of LIN TAN INVESTMENT CO., LTD. : Fang-Ming Lo	7	1	87.50	Renewal of office
Director	Representative of LIN TAN INVESTMENT CO., LTD. : Chun-Ping Ma	4	-	100.00	Renewal of office
Director	Representative of LIN TAN INVESTMENT CO., LTD. : Yu-Min Wu	4	-	100.00	Term expired
Director	Shih-Yun Sheng	7	1	87.50	Renewal of office
Director	Shao-Kuo Huang	7	1	87.50	Renewal of office
Independent Director	Nai-Hua Wu	8	-	100.00	Renewal of office
Independent Director	Ken-Yi Cheng	4	-	100.00	New office assumed. Ken-Yi Cheng was the past independent supervisor
Supervisor	Tang-Ming Wu	8	-	100.00	Renewal of office
Supervisor	Chung-Yi Yang	8	-	100.00	Renewal of office
Independent Supervisor	Ken-Yi Cheng	4	-	100.00	Term expired and reelected as independent director
Supervisor	J.S Chen	2	-	50.00	New office assumed.

Annotations:

- 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.
- The 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.

Meeting Date	Proposal Content	Director's Name	Reasons to Avoid Interest	Resolution
2009.3.30	Nomination for independent director and qualification examination	Nai-Hua Wu	Nominating Nai-Hua Wu for independent director and Ken-Yi Cheng, serving as independent supervisor, for independent director and examining their qualifications.	Approved by all attended directors and supervisors, except Nai-Hua Wu and Ken-Yi Cheng who were excluded from this discussion considering interest avoidance.

3. Measures taken to strengthen the functionality of the Board and evaluation of the implement:

- Revising the procedural Rules of the Board of Directors according to relevant laws.
- Designating specialists to announce information which shall be disclosed by regulations and material information. Specialists are responsible to upload information to the Market Observation Post System timely and correctly, and disclose the information on the Company's website simultaneously.

Note 1: During 2009 General Shareholders' Meeting on June 16, 2009, term of directors and supervisors was expired and directors and supervisors were renewed and reelected. There were respectively four Board of Directors meetings before and after the reelection, a total of 8 meetings in 2009, and the abovementioned attendance rate in person was calculated based on each member's term.

Note 2: Fang-Ming Lo, former representative of LIN TAN INVESTMENT CO., LTD., resigned on Dec 31, 2009, and Chyang Lo, the representative newly appointed by LIN TAN INVESTMENT CO., LTD., has assumed since Jan 1, 2010.

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

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

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

The State of Participation in Board Meetings by the Supervisors

The chairman convened 8 (A) board of directors meetings in 2009. The directors' attendance status is as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate in Person (%) 【B/A】	Remarks
Supervisor	Tang-Ming Wu	8	-	100.00	Renewal of office
Supervisor	Chung-Yi Yang	8	-	100.00	Renewal of office
Independent Supervisor	Ken-Yi Cheng	4	-	100.00	Term expired and reelected as independent director
Supervisor	J.S. Chen	2	-	50.00	New office assumed.

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 : During 2009 General Shareholders' Meeting on June 16, 2009, term of directors and supervisors was expired and directors and supervisors were renewed and reelected. There were respectively four Board of Directors meetings before and after the reelection, a total of 8 meetings in 2009, and the abovementioned attendance rate in person was calculated based on each member's term.

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. The Company has spokesman, the public relation team, and stock affairs office to handle relative matters. 2. Conducting with the discussion rules of shareholders meetings when meetings are held.</p> <p>(2) Except analyzing the distribution profile of share ownership after the final day for stock transfer, the Company has stock affairs office and specialists to keep contact with the stock agent institution to hold the list of main shareholders and other controllers and to declare status of net change in shares pledged by insiders and main shareholders according to the regulations.</p> <p>(3) The Company has established and managed in conformity to the internal control system, such as the "Procedures Governing Specific Companies, Groups, and Related Parties Transactions", the "Endorsement / Guarantee Procedures", and the "Procedures Governing the Acquisition and Disposal of Assets", to manage risks between the Company and subsidiaries.</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.</p> <p>(2) 1. The qualification of a new hired accountant would be evaluated by directors and supervisors who also have the experiences in the area of accounting and finance. 2. The auditing public accountants and auditing company are neither the related parties of the Company, nor with any interests in the Company, and will hold the independency. 3. Directors and supervisors of the Company discuss with the accountants semiannually on financial statements and corporate governance, and to follow the latest information of finance and tax accounting.</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. Any stakeholders who are in need could contact with the Company through e-mail, phones, fax, or letters, and the contact information are published on M.O.P.S and the Company's website.</p>	<p>None</p> <p>None</p> <p>None</p>

Item	Implementation Status	Reason for Non-implementation
<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. Any investor conference materials are declared on the M.O.P.S in advance and afterwards and on the Company's website.</p>	<p>None</p> <p>None</p>
<p>5. Operations of the Company's Nomination Committee, Compensation Committee, or other functional committees of the Board of Directors</p>	<p>The Company has not established any Nomination Committee, Compensation Committee, or other functional committees.</p>	<p>Although the Company has not established any Nomination Committee, Compensation Committee, or other functional committees, the Company is discussing the possibility of establishing Audit Committee on the consideration of corporate governance, and will make execution based on company's statutes.</p>
<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>		

Item	Implementation Status	Reason for Non-implementation
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 customer policies, and purchasing insurance for directors and supervisors):	<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, and 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 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 related 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 employee health examinations and fire and emergency drills regularly. 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 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)Rights of stakeholders:The Company has designated people taking different positions to communicate with each stakeholder and protect stakeholders' right. Please refer to the Company's CSR Report for more details.</p> <p>(5)Directors' attendance, supervisors' attendance as nonvoting delegents, 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. <p>(6)Risk management policies: Please refer to P.59-P.61 of this Annual Report.</p> <p>(7)The implementation of customer policies: The Company complys with ISO 9001 and offers entire service to customers. The Company not only makes improvement on quality but also does technical communication with customers depending on their requirements. Please refer to the Company's CSR Report for more details.</p> <p>(8)The status of liability insurance bought by the corporate for directos and supervisors and social responsibility: Holy Stone has bought liability insurance for directors and supervisors, and the maxium amount of compensation is US\$5 million at a time and in an accumulative total.</p> <p>(9)The Company received CSR-related award from Global Views Magazine in 2010.</p>	
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		

3.3.4. Corporate Social Responsibility

For more details, please refer to the Company's CSR Report on the website: www.holystone.com.tw.

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 not only has installed 14 effective stationary pollution control equipment in Longtan factory to meet regulatory emissions standards but 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 2010.

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.

The Company has published the first corporate society responsibility report, CSR Report, in 2009.

Online website: www.holystone.com.tw .

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 26, 2010

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, 2009 to December 31, 2009:

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 selfmonitoring 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 2009, 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 2009 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 26, 2010, 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 2009 and as of May 15, 2010.

None.

3.3.9.Important Decisions Made by Shareholder Meeting and the Board during 2009 and as of May 15, 2010.

Major resolutions of Shareholders' Meeting and Board Meetings during 2009 and as of May 15, 2010 were summarized as follows:

Date	Decided by	Major Resolutions	Implementation Status
2009.06.16	Shareholders' Meeting	<ol style="list-style-type: none"> 1.The approval for 2008 business report and 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 procedures." 7.The election of directors and supervisors. 8.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.
2009.01.22	Board Meeting	<ol style="list-style-type: none"> 1.The approval for 2009 business report. 2.The approval for independent auditor replacement. 3.The replacement of the directors of subsidiaries and the release of the directors from the restriction of non-competition clause. 	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 2009 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 procedures." 7. The election of directors and supervisors. 8. The approval for the nomination of independent directors and qualifications. 9. The approval for the release of directors 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 replacement of the director of HE JIA ELECTRONIC (DONG GUAN) LTD., the subsidiary of the Company, and the release of the director from the restriction of non-competition clause. 	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2009.04.27	Board Meeting	Auditing proposals of 2009 Annual Shareholders' Meeting and the nomination of independent directors.	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2009.06.16	Board Meeting	The election of the chairman of Board of Directors.	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.

Date	Decided by	Major Resolutions	Implementation Status
2009.07.03	Board Meeting	1.The proposal of ex-rights of capital increase from retained earnings and the issuance conditions, as well as ex-dividends by cash dividends payment and ex-rights and ex-dividends by employee stock option. 2.The proposal of directors' & supervisors' remuneration, attendance fees, and managers' compensation.	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2009.08.20	Board Meeting	The approval for the first half of 2009 financial statements and consolidated financial statements.	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2009.10.29	Board Meeting	1.The report of the influence of IFRS, the conversion schedule, and the expected implement project. 2.The approval for the Company's internal control system and the amendment of the Company's internal audit system. 3.The approval for the Company's internal audit project.	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2010.01.25	Board Meeting	The approval for the business plan for 2010.	All the resolutions of the Board Meeting are under implement in accordance with the resolutions.
2010.02.22	Board Meeting	The approval for the establishment of Yilan branch office.	All the resolutions of the Board Meeting have been fully implemented in accordance with the resolutions.
2010.03.26	Board Meeting	1.The approval for 2009 business report and unconsolidated and consolidated financial statements. 2.The approval for the distribution of 2009 profits. 3.The approval for the amendment of the Company's "Articles of Incorporation." 4.The approval for the release of directors from the restriction of non-competition clause. 5.The approval for convening the 2010 Annual Shareholders' Meeting. 6.The approval for 2009 Statement of Internal Control System. 7.The approval for the amendment of the Company's "Board of directors discussion rules."	Resolution 6 and 7 of the Board Meeting have been fully implemented in accordance with the resolutions. Others will be proposed to shareholders' meeting for decision and implemented in accordance with the decisions and election results.
2010.05.11	Board Meeting	1.The approval for cash capital increase of 2010 and the issuance of third domestic unsecured convertible bond. 2.The approval for the amendment of the Company's "Endorsement / Guarantee procedures" and "Procedures governing loaning of funds." 3.The approval for adding proposals into convening the 2010 Annual Shareholders' Meeting. 4.The approval for the release of managers from the restriction of non-competition clause.	Resolution 1 will be conducted based on the investigation of FSC. Resolution 4 has been fully implemented in accordance with the resolution. Others will be proposed to shareholders' meeting for decision and implemented in accordance with the 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 2009 and as of May 15, 2010.

None.

3.3.11.Collection of Resignation and Dismission of Financial Report Related Personnels during 2009 and as of May 15, 2010.

None.

3.4.Information Regarding Holy Stone's Independent Auditor

Audit Fee

Accounting Firm	Name of CPA		Auditing Term	Remarks
KPMG	Ching-Sung Wang	Chia-Hsin Chang	98.01.01~98.12.31	-

Unit: NTD thousands

Fee	Item	Audit Fee	Non-audit Fee	Total
1	Under NT\$2,000 thousand	-	✓	-
2	NT\$2,000 thousand~NT\$4,000 thousand	✓	-	✓
3	NT\$4,000 thousand~NT\$6,000 thousand	-	-	-
4	NT\$6,000 thousand~NT\$8,000 thousand	-	-	-
5	NT\$8,000 thousand~NT\$10,000 thousand	-	-	-
6	Over NT\$10,000 thousand	-	-	-

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.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 2009, should disclose his name, title, and term.

None.

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

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

Unit: shares

Title	Name	2009		01/01/2010~04/16/2010	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & President	Jing-Rong Tang	1,589,918	-	-	-
Director	LIN TAN INVESTMENT CO., LTD.	288,384	-	-	-
Director & Vice Executive President	Shih-Yun Sheng	326,118	-	(20,000)	-
Director & Vice President	Shao-Kuo Huang	155,035	-	(30,000)	-
Independent Director	Nai-Hua Wu	-	-	-	-
Independent Director	Ken-Yi Cheng	-	-	-	-
Supervisor	Chung-Yi Yang	13,022	-	-	-
Supervisor	Tang-Ming Wu	16,947	-	-	-
Supervisor	J.S Chen	-	-	-	-
Vice President of Management Team	Yu-Min Wu	58,751	-	(40,000)	-
Vice President	Sheng-Yao Lu	54,168	-	-	-
Vice President	I-Ta Lee	18,850	-	(18,000)	-
Vice President	Hui-Bang Yeh	64,711	-	(50,000)	-
Manager of Finance and Accounting Department	Shu-Ying Chang	(114,110)	-	(4,000)	-

3.6.2. Information of Net Change in Shareholding: None.

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

3.7. 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 12/31/2009

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	5,500,000	14.10	28,000,000	71.79
Taiwan MAHK OPT. CO., Ltd.	176,396	70.56	-	-	176,396	70.56
MARTEK CO., LTD.	3,800,000	100.00	-	-	3,800,000	100.00
RONG JHAN INVESTMENT CO., LTD.	34,000,000	100.00	-	-	34,000,000	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 captital 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, captital 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 captital 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
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

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
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
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

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
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 (Note 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 13)	None	None
09/2008	10	350,000,000	3,500,000,000	280,645,587	2,806,455,870	Convertible bond for stock NT\$18.967 million (Note 6)	None	None
08/2009	10	450,000,000	4,500,000,000	287,217,454	2,872,174,540	Retained earnings NT\$65.719 million (Note 14 and 15)	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 27, 2007 and by FSC Ruling Chin-Kuan-Cheng (1) 0960032456.

Note 13: Approval on June 20, 2008 and by FSC Ruling Chin-Kuan-Cheng (1) 0970030925.

Note 14: Approval on July 1, 2009 and by FSC Ruling Chin-Kuan-Cheng (1) 0980032787.

Note 15: 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 04/16/2010

Type of Stock	Authorized Share Capital			Note
	Outstanding Shares (Listed)	Unissued Shares	Total	
Common Stock	287,217,454	162,782,546	450,000,000	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 04/16/2010

Type	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Repurchase Stock	Total
Number of Shareholders	4	15	134	75	31,552	-	31,780
Shareholding	1,142,071	21,358,652	75,348,181	14,785,785	174,582,765	-	287,217,454
Holding Percentage	0.40%	7.44%	26.23%	5.15%	60.78%	-	100.00%

4.1.3.Distribution Profile of Share Ownership

As of 04/16/2010

Shareholder Ownership	Number of Shareholders	Ownership	Ownership(%)
1-999	11,426	1,815,689	0.63%
1,000-5,000	14,890	31,043,058	10.81%
5,001-10,000	2,870	20,299,193	7.07%
10,001-15,000	1,014	11,834,813	4.12%
15,001-20,000	426	7,602,327	2.65%
20,001-30,000	445	10,729,484	3.74%
30,001-40,000	186	6,514,794	2.27%
40,001-50,000	118	5,401,742	1.88%
50,001-100,000	195	13,030,657	4.54%
100,001-200,000	86	11,983,578	4.17%
200,001-400,000	47	13,230,525	4.61%
400,001-600,000	15	7,249,916	2.52%
600,001-800,000	14	9,291,046	3.23%
800,001-1000,000	9	8,409,172	2.93%
Over 1,000,001	39	128,781,460	44.83%
Total	31,780	287,217,454	100.00%

4.1.4.Major Shareholders

As of 04/16/2010

Shareholders	Shares	Total Shares Owned	Ownership(%)
LIN TAN INVESTMENT CO., LTD.		14,707,623	5.12%
LUNG KO INVESTMENT CO., LTD.		13,525,431	4.71%
Nan Shan Life Insurance Co., Ltd		11,723,860	4.08%
Jing-Rong Tang		10,402,826	3.62%
Management Board of the Public Service Pension Fund		7,206,024	2.51%
Trust Committee of CTCB authorized by Fang-Ming Lo		5,600,000	1.95%
Shih-Yun Sheng		4,400,525	1.53%
Mei-Yu Lin		3,392,967	1.18%
LUNG HSIN INVESTMENT CO., LTD.		3,377,618	1.18%
SINO TALENT TECHNOLOGY		2,995,642	1.04%

4.1.5. Market Price, Net Worth, Earnings, Dividends Per Common Share, and Relevant Information During 2008 and 2009

Unit: thousand shares / NT\$

Item		Fiscal Year	2008	2009	01/01/2010 ~04/30/2010
Market price per share	Highest market price		47.15	47.40	54.50
	Lowest market price		16.05	17.50	41.00
	Average market price		34.64	30.49	48.96
Net worth per share	Before distribution		26.03	28.46	29.17(Note 5)
	After distribution		24.43	(Note 1)	-
Earnings per share	Weighted average shares		279,608	286,781	287,217
	Earnings per share		2.36	2.96	0.87
Dividends per share	Cash dividends		1.6	3.0 (Note 1)	-
	Stock dividends	From retained earnings	0.2	- (Note 1)	-
		From capital surplus	-	- (Note 1)	-
	Accumulated undistributed dividends		-	-	-
Returns on investment	Price / Earnings Ratio (Note 2)		14.68	10.30	-
	Price / Dividend Ratio (Note 3)		21.65	10.16(Note 1)	-
	Cash Dividend Yield (Note 4)		4.62%	9.84%(Note 1)	-

Note 1: Please base the information on the shares issued at year end and the resolution for stock distribution at shareholders meeting.

Note 2: Profit ratio = Closing price per share of the year / Earnings per share.

Note 3: Earning ratio = Closing price per share of the year / Cash dividend per share.

Note 4: Cash dividend yield rate= Cash dividend per share/ Closing price per share of the year.

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 2009

- (1) On March 26, 2010, Holy Stone's Board of Directors approved a proposal for distribution of 2009 profits with a cash dividend of NT\$3 per share. After the approval of the Annual Shareholders' Meeting, the Board will be authorized to decide the pay day.
- (2) The remaining cash dividends, excluded from the round-off cash dividends, will be allocated to the organization of employees' welfare committee of the Company.
- (3) Dividends allocation decided by the resolution of shareholders' meeting could be adjusted by the Board of Directors according to the Company's outstanding shares on the pay date given that any changes in current outstanding shares cause the payout ratio to change and that the Board of Directors is proposed to be authorized by shareholders' meeting. Changes in current outstanding shares might occur because of cash capital increase, repurchase of treasury stock, treasury stock sold to employees, cancellation of treasury stock, the exercise of convertible corporate bond, the exercise of employee stock option, and so on.

4.1.7. Impact to 2010 Business Performance and EPS Resulting from Stock Dividend

Distribution: The Company proposed to allocate all dividends during 2009 in cash, so there is no impact to 2010 business performance and EPS.

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 No.20 of the Company's Articles of Incorporation, retained earnings shall be distributed as follows:

- (1) Income tax payment.
- (2) Accumulated deficits offset.
- (3) 10 percent of the annual earnings, after payment of income taxes due and offsetting accumulated deficits, shall be set aside as legal reserve.
- (4) An appropriation for special reserve based on the regulations.
- (5) The remainders of the unappropriated retained earnings, deducting the abovementioned (1) to (4) items from earnings, shall be distributed to directors, supervisors, and employees as follows:
 - i. Directors & Supervisors compensation are no more than 3%.
 - ii. Employee profit sharing is no less than 7%.

Bonus to employees, distributed in stock dividends, shall be allocated to qualified employees according to the Board of Directors and the authorized members.

- (6) The surplus is dividends and bonuses to shareholders.

4.1.8.2. Accounting for the assessment of employees' bonus, directors' and supervisors' remuneration, and shares of stock dividends, and for discrepancy, if any, between actual and proposed distribution.

- (1) According to the operating forecast of 2009 made by the Board and past distribution status, employees' bonus and directors' and supervisors' remuneration of 2009 are NT\$119,005 thousand and NT\$22,313 thousand, respectively a 16 percent and a 3 percent of the amounts deducting the legal reserve and the special reserve from net income.

- (2) The issued stock shares will be calculated by the closing price the day before the 2010 Annual Shareholders' Meeting considering the ex-dividend effect.

- (3) The discrepancy between actual distribution of employee dividends and director/supervisor compensation and the proposed distribution shall be recognized on Statement of Income.

4.1.8.3. Planned employee profit sharing information approved by the Board

- (1) Distribution of cash dividends or stock dividends to employees, and compensation for directors and supervisors. Any difference, reason, and accounting status shall be disclosed if there is any discrepancy between actual distribution of employee dividends and director/supervisor compensation and the proposed distribution. On March 26, 2010, the Board approved for the distribution of NT\$119,005 thousand of employees' bonus and NT\$22,313 thousand of directors' and supervisors' remuneration, which will be paid in cash. The remainders of NT\$786 beneath a thousand dollar shall be recognized as a deduction of expenses depending on the resolution of the Annual Shareholders' Meeting.

(2)The number of shares in any proposed distribution of employee stock dividends, and the size of such a distribution as a percentage of capital increase paid out of earning: Not applicable to the Company because of no stock dividend distributed.

(3)The effect upon imputed earnings per share of any proposed distribution of employee dividends and director/supervisor compensation: Earnings per share of 2009 were still NT\$2.96 because both employee dividends and director/supervisor compensation have been expensed.

4.1.8.4. The status of earnings being distributed to Employee Profit Sharing and Directors & Supervisors Compensation in 2008

(1)The Company distributed NT\$50,500 thousand of employees' bonus, with NT\$ 25,500 thousand of cash dividends and NT\$25,000 thousand of stock dividends, and NT\$15,100 thousand of directors' and supervisors' remuneration of 2008. Employee stock dividends were 958,956 shares, calculated by NT\$26.07 per share, an ex-dividend stock price of NT\$28.2, the closing price on the day before shareholders' meeting. Total shares of stock dividends were same to what had been resolved by the Board.

(2)The discrepancy between actual distribution of employee dividends and director/supervisor compensation and the proposed distribution was NT\$811 thousand, which was recognized on Statement of Income.

4.1.9. Buyback of Common Stock

In 2009 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 04/30/2010

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	0.52%	1.22%	3.48%
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\$36.8	NT\$45	NT\$41.4
Percentage of Shares Unexercised to Outstanding Common Shares (%)	0.52%	1.22%	3.48%
Impact to Stockholders' Equity	The dilution ratio to original common stock stockholders' equity is 0.52%; therefore, there is limited dilution effect.	The dilution ratio to original common stock stockholders' equity is 1.22%; therefore, there is limited dilution effect.	The dilution ratio to original common stock stockholders' equity is 3.48%; 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 04/30/2010

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	3,420 (Note 4)	1.19%	-	-	-	-	1,500 (Note 1)	36.8	55,200	0.52%	
Vice Executive President	Shih-Yun Sheng			-	-	-	-	-	-	-	-	-
Vice President	Yu-Min Wu			-	-	-	-	-	-	-	-	-
Vice President	Shao-Kuo Huang			-	-	-	-	3,500 (Note 2)	45.0	157,500	1.22%	
Vice President	Sheng-Yao Lu			-	-	-	-	-	-	-	-	-
Vice President	I-Ta Lee			-	-	-	-	-	-	-	-	-
Vice President	Hui-Bang Yeh			-	-	-	-	-	-	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang			-	-	-	-	10,000 (Note 3)	41.4	414,000	3.48%	
Employees	Corporate employees	11,580	4.03%	-	-	-	-	-	-	-		

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 (2009)

Item	Shares of Sales Revenue
Passive Components	32.27%
Active Components	30.47%
System & Module	19.06%
Other Components	18.20%
Total	100.00%

5.1.1.3 Products and service items

- (1)Capacitors and other passive components.
- (2)IC and other active components.
- (3)System & Module.
- (4)Other components.

5.1.1.4 New products planned to develop

Holy Stone plans to:

- (1) Continue to develop BME medium-high capacitance series products.
- (2) Continue to develop MLCCs for military and industrial applications.
- (3) Continue to develop filter capacitors for aerospace and industrial applications.
- (4) Continue to develop thermal ceramic substrates for LED application.
- (5) Develop USB3.0 protection devices.
- (6) Develop polymer tantalum capacitors.

5.1.2. Industry Overview

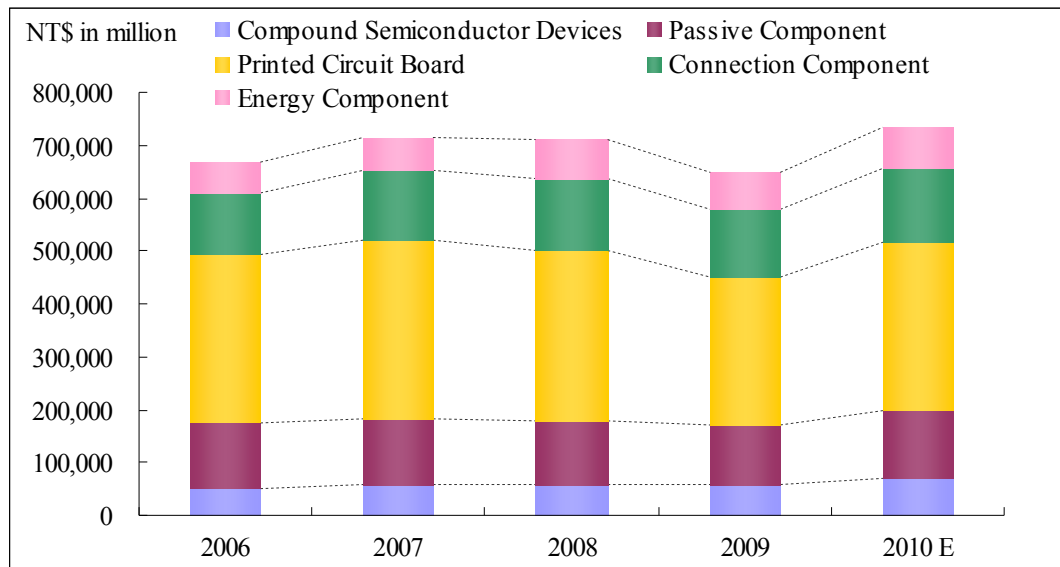
5.1.2.1. Current status and future outlook of the industry, and development trends and competition

Struck by the two-year financial crisis, the global economy was recovering with the relief of government stimulus measures. While advanced economies remained sluggish and still relied on government spending, emerging markets were led by particularly strong developing Asian economies and act as worldwide growth engines. Looking ahead to 2010, IMF forecasts that global GDP will recover to 4.2 percent from negative in 2009, with that of 2.3 percent in advanced economies and that of 6.3 percent in emerging markets. Since the recovery is mainly based on government's policy, a solid economic growth in 2010 will depend on a continuous demand from commercial markets and consumption markets.

The portfolio of Holy Stone's products is classified as four segments, and the description on each segment goes as follows.

Passive components industry: Capacitors are the major products in this segment. In addition to MLCC, Holy Stone also starts tantalum capacitors manufacturing from April 2010 and distributes other passive components (e.g. Aluminum capacitors). Battered by near three years of oversupply resulted from capacity expansion and economic recession, global passive components industry went through a trough and began to rebound since the third quarter of 2009. Different from other MLCC makers, Holy Stone focuses on the development of special MLCC, with higher technical barrier and challenging process management and requiring diversified product spec. With the advantage of high capacitance, high reliability, and low-ESR, polymer tantalum capacitors, new products made by Holy Stone Group during 2010, are applied to portable, small size, and high-end electronic products. With relative tight components supply and dynamic demand from end-markets, passive components industry has potential for growth in 2010. According to IEK, output value of domestic passive components will achieve NT\$128,411 million this year, an increase of 15.3 percent compared with that of 2009.

Taiwan Electronic Components Production Value from 2006 to 2010



Source: IEK (2010/02)

Competitors in high voltage and special MLCC market focused by Holy Stone are much fewer and mainly concentrate in America and Japan. The Company has acquired approvals from aerospace customers in 2009 to become one of the few suppliers in the world. Major suppliers of conductive polymer tantalum capacitors are Japanese and American companies, and there is no competitive provider in Great China and Korea. Holy Stone will offer a series of tantalum capacitors with core R&D capabilities and producing technology in Taiwan to satisfy customer needs.

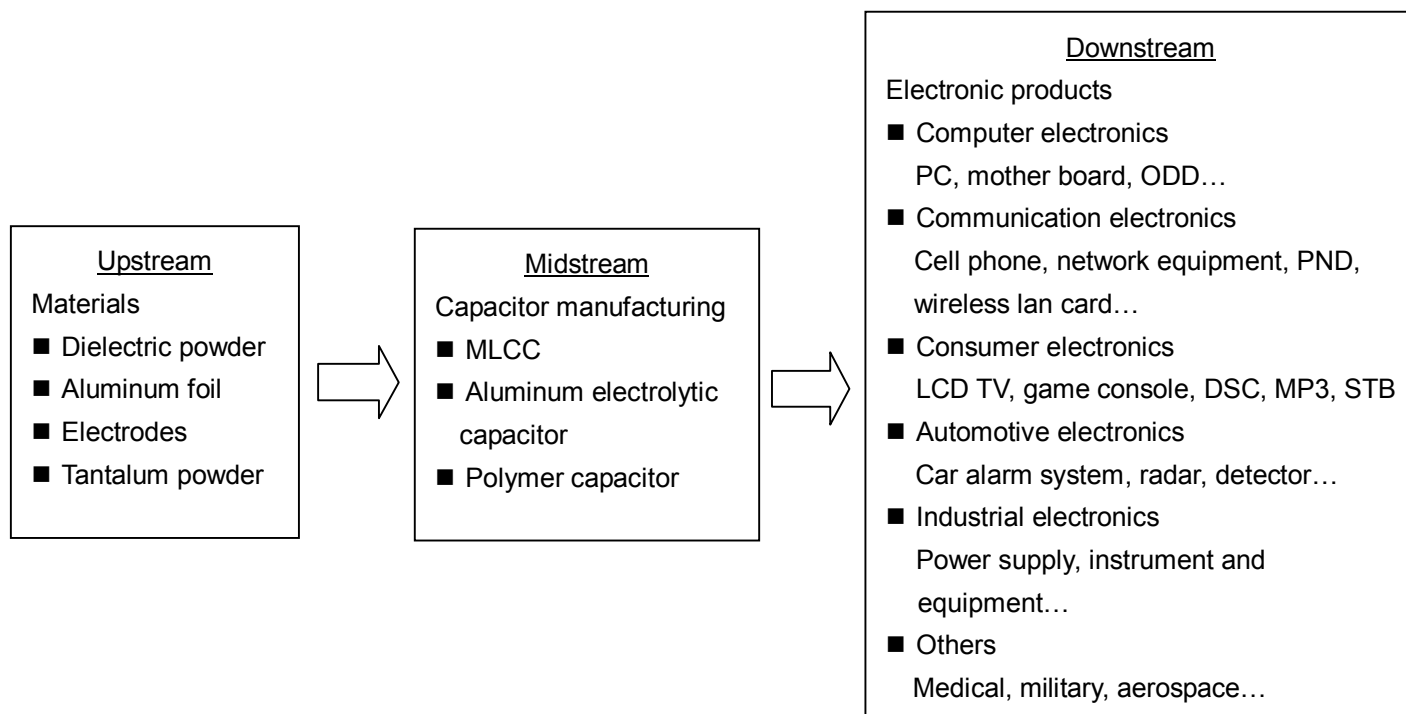
As for aluminum capacitors, Holy Stone mainly distributes Nichicon's products. Contributed by the acquisition of aluminum capacitors product line of Fujitsu Media Devices, Nichicon now has more complete product line of conductive polymer aluminum capacitors, which are replacing aluminum electrolytic capacitors in the application of digital home appliances and computer & communication electronics because of smaller size, higher reliability, and lower ESR. In sum, the upgrade of end products enhances the requirement of capacitors' capacitance and reliability, driving the demand for high capacitance MLCC, polymer tantalum capacitors, and polymer aluminum capacitors.

Active components industry: This segment is composed of distributed IC components which are general applied to telecommunication and networks. Although the demand for cellular phone in advanced markets slumped during 2009, the strong demand from emerging markets backed the segment up. As for networking industry, 3G networks infrastructure in China ignited the demand for relevant IC and offset the weak demand from corporate and consumption markets. According to iSuppli, worldwide semiconductor industry is expected to grow 21.5 percent in 2010.

System and Module industry: Product lines in this segment are distributed IC (e.g. MCU) with add-on value and are applied to automotive electronics, safety control and industrial control equipment, and home appliances. Global automotive market was wrecked by the financial crisis, but China's automotive industry, with the contribution of government subsidy policy, has experienced explosive growth in 2009 and steps into steady growth in the following several years. Databeans forecasts that global MCU market will grow 11% to US\$12,084 million in 2010.

Peripheral components industry: Holy Stone's distributed peripheral components segment contains diversified electronic components which are classified as other components and the major product line is for ODD, optical disc drive application. According to *Gartner*, worldwide PC shipment will have double-digit growth in 2010, bringing steady growth for peripheral components industry.

5.1.2.2. Supply chain structure



5.1.3. A Commitment to Research and Development

5.1.3.1 R&D expenditures during 2009 and as of the date of this Annual Report

Unit: NT\$ in thousands

Item	2009	As of April 30, 2010
R&D expenditures	96,770	29,956
Net sales	11,105,929	4,084,424
Percentage	0.87%	0.73%

5.1.3.2 Successful development of manufacturing services and technologies

The Company has finished the development of both thick and thin film process, and is entering into markets to expand market share. Furthermore, the Company not only continues to develop medium and high capacitance products but also invests in the development of special capacitors and filter capacitors for military and industrial applications. Regarding to ceramic substrates, the Company offers AlN/Al₂O₃ thin film products and customized products to LED and solar energy markets.

5.1.4. Short-term and Long-term Development Strategies

5.1.4.1 Promotion strategies

(1) Short-term

- A. Offer faster service for goods delivery to cope with economic boom.
- B. Continue to attract new customers and expand service scope.
- C. Expand industrial and aerospace electronics market aside from 3C industry.

(2)Long-term

- A.Keep solid partnership with customers.
- B.Strengthen competency in new market expansion by means of technical service.
- C.Meet customers' need with adequate products and increase components' added value.
- D.Strengthen and deepen penetration in China to extend selling base.

5.1.4.2 Production policies

(1)Short-term

- A. Set up and kick off the production line of polymer tantalum capacitors in LiTzer factory.
- B. Increase the weight of special MLCC shipment and its producing efficiency.
- C. Expand the capacity of ceramic substrate to satisfy market demand.
- D. Establish fast and flexible producing and dispatching capability to meet customers' need.

(2)Long-term

- A.Diversified product portfolio to strengthen competitiveness.
- B.Cultivate outstanding employees to maintain R&D performance.
- C.Increase the reliability of production and intensify quality management.
- D.Strengthen organization function in reaction to new product line.

5.2. Market and Sales Overviews

5.2.1. Market Analysis

5.2.1.1 Sales by geographical area

The Company sells products to customers in computer electronic market, communication electronic market, consumer electronic market, and automotive & industrial electronic market, and continues to target customers in European and American market to increase exports.

Sales rate by geographic area in 2009 and 2008

Unit: NT\$ in thousand

Year		2008		2009	
		Gross Sales	Percentage	Gross Sales	Percentage
Domestic		2,672,809	20.92%	2,085,350	18.78%
Export	Asia	9,895,999	77.45%	8,839,143	79.59%
	Americas	137,347	1.07%	112,372	1.01%
	Europe	70,512	0.55%	67,915	0.61%
	Others	787	0.01%	1,149	0.01%
Total		12,777,454	100.00%	11,105,929	100.00%

5.2.1.2 Market share

The Company's main products are niche capacitors, active components, and System & Modules. Net sales totaled NT\$11,105,929 thousand in 2009, and decreased slightly from 2008 due to the financial tsunami. Those main 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

Holy Stone's products are applied to 3C markets and automotive and industrial market, and the main application includes PC, mobile phone, networks, automotive electronics, power supply, consumer electronics, home appliances and so on. Figures in the following chart are the forecast shipments and amount made by some international research institution.

Product	2009	2010 (F)	YoY (F)
PC shipment	306 million	366 million	19.7%
Handsets shipment	1.15 billion	1.30 billion	11.3%
LCD TV shipment	146 million	171 million	17%
Telecom IT Spending	US\$1,890 billion	US\$1,980 billion	4.7%

Source: DisplaySearch, IDC, ABI Search, Gartner

Market analysis of Holy Stone's main product lines is as follows:

Passive components: Holy Stone not only focuses on high capacitance and high voltage MLCC manufacturing but also started tantalum capacitors manufacturing since April 2010, and the Company still distributes other passive components, such as aluminum capacitors. Main applications for the abovementioned products are networks, PC, power supply, home appliances, consumer electronics, automotive electronics, and aerospace and military. Growth of enterprise networking and communication equipment expenditure has been stagnant since 2008, and is expected to rebound in 2010. Contributed by the improvement of America and Europe markets and stable demand from emerging market, the enterprise network equipment market is expected to recover to annual growth of 4.7% during 2010 by the research company *Gartner*. Furthermore, the development of digital home will drive the demand for broadband equipment and several upcoming analog-to-digital broadcast policies in many countries will stimulate the growth of set-top box shipment. As for PC, continuous strong emerging market demand, the comeback of corporate demand, and the kickoff of replacement demand will make the industry have double-digit growth this year. Power supply industry is highly correlated with 3C markets and is entering into an era of high power and high efficiency. With the resurgence of end-market, the demand from power supply customers looks optimistic. Finally, niche markets of aerospace and military applications keep stable demand and the Company will target at expanding market share.

Regarding to MLCC supply, current MLCC market is shared by Japanese, Korean, and Taiwanese companies, and Japanese corporations hold the technical strength and lead the industry. However, Korean company continued to produce high capacitance MLCC rivaling Japanese competitors and expanded its market share in 2009. While Taiwanese passive component business is the major supplier of standard MLCC, Japanese companies and Korean company take leading place in high capacitance MLCC. Revived from over-expanded capacity in 2007 and slump end-market demand in 2009, the supply side of MLCC will be healthy during 2010.

Active components: With the growth of export of 2G/2.5G handsets from China to other emerging markets and the demand for low price handsets in China, the 2G/2.5G handset market still keeps stable growth rate. 3G handsets market in China is expected to have dynamic growth during 2010 after the completion of the first phase of 3G network construction. Global handset sales will return to low-double-digit growth rate in 2010, according to *Gartner*. Holy Stone's distributed IC will grow with global handset market (incl. white-box), but the growth rate will be offset by the trend of SoC that bundles certain ICs into single chip and reduce the demand for some networking components.

System & Module: With the strong demand from china automotive market and industrial equipment investment, revenues of this segment just declined slightly under the impact of the transfer of Texas Instrument product line. In 2010, stable automotive demand for MCUs, the main products in this segment, is driven by advanced safety systems in car, the gradual recovery of automobile market in western countries, and the expansion of the automobile subsidy in China. Also benefited by China's governmental subsidy for appliance, end-market demand was stable during 2009 and is expected to maintain steady growth this year. Furthermore, the trend of energy-efficiency brings the demand for low power-consumption MCUs for appliances, industrial instruments and equipment. Overall, *Databeans* expects worldwide MCU revenue to grow 11% in 2010.

Peripheral components: Holy Stone's peripheral components are distributed except the ceramic substrate which is for the thermal management of high-brightness LED lighting. The distributed products are diversified, such as ODD and batteries. As the price of Blu-ray ODD slides to under USD\$100, the penetration rate will expand significantly. According to IDC, Blu-ray ODD shipment will grow to about 9.3 percent of overall ODD shipment in 2010 and the growth potential will accelerate from 2010 to 2012. As for ceramic substrate, Holy Stone mainly focuses on LED lighting market. Since the price of LED die falls gradually and the implement on governmental bans against incandescent light bulbs use, LED lighting is expected to boom and drive high-brightness LED market growth at a CAGR of 24% through 2013, according to market research firm *Strategies Unlimited*.

5.2.1.4 Core competence, advantages and disadvantages of future prospects and policy of response

(1)Core competence and Advantages

- A.Penetrative sales channels and complete promotion services.
- B.Own the technologies of developing high voltage, high capacitance, and special capacitors.
- C.Own the technology of developing polymer tantalum capacitors.
- D.Expand distribution line of communication, multimedia, and peripheral components, and invest 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)Invest in upstream raw materials development, and communicate with overseas factory with the expectation of possessing powder measurement and improvement abilities, as well as MLCC design ability.
- (B)Increase the number of suppliers and keep good relationship with present suppliers in order to reduce risks of lacking raw materials.

B. Gradually severe market competition

Reaction policy:

(A) Produce high level and high ASP products to extend new application.

(B) Distribute competitive products, expand new distribution line, and offer solutions to keep stable operation and various sales.

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

Reaction policy:

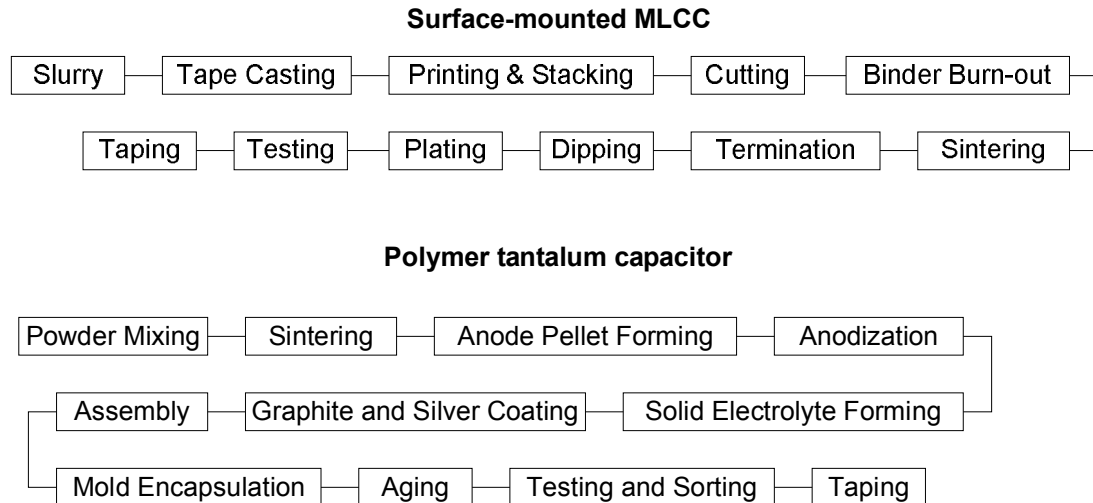
Aside from computer electronic products, communication electronic products, and consumer electronic products, increase industrial electronics and automotive electronics customers.

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. In the industrial electronics industry, they are applied to power supply, inverter, converter, and so on. In the photonics industry, they are mainly applied to LCD PANEL. Finally, newly-developed special capacitors are for military and industrial applications, for example, aerospace.

5.2.2.2 Production process



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, Nichicon
Integrated Circuit	Microchip, Skyworks
Inner Electrode	FERRO, SHOEI
Silver-palladium and Metal Powder	CERMET, FWH
Electronic Components	PANASONIC

5.2.4. Major Suppliers and Customers List 2008-2009

5.2.4.1 Major suppliers list

Unit: NT\$ thousand/%

Item	2008				2009				First quarter of 2010			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	A	2,877,753	27.01	None	D	2,534,945	28.67	None	D	624,538	24.25	None
2	D	2,139,264	20.08	None	A	1,971,010	22.30	None	B	593,561	23.04	None
3	B	1,189,631	11.16	None	B	1,283,837	14.52	None	A	417,022	16.19	None
4	C	1,084,760	10.18	None	C	595,937	6.74	None	C	122,720	4.76	None
	Others	3,364,129	31.57	—	Others	2,454,212	27.77	—	Others	818,097	31.76	—
	Total	10,655,537	100.00	—	Total	8,839,941	100.00	—	Total	2,575,938	100.00	—

5.2.4.2 Major customers list

Unit: NT\$ thousand/%

Item	2008				2009				First quarter of 2010			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	K	1,505,505	11.78	None	K	1,104,074	9.94	None	K	320,018	10.72	None
	Others	11,271,949	88.22	—	Others	10,001,855	90.06	—	Others	2,666,088	89.28	—
	Total	12,777,454	100.00	—	Total	11,105,929	100.00	—	Total	2,986,106	100.00	—

5.2.5. Production Quantity & Value Table 2008-2009

Unit: KPCS/NT\$ thousand

Items \ Year	2008			2009		
	Capacity	Production Quantity	Production Value	Capacity	Production Quantity	Production Value
Capacitor	16,000,000	14,011,019	2,098,541	17,000,000	8,194,334	1,566,287

5.2.6. Sales Quantity & Value Table 2008-2009

Unit: KPCS/NT\$ thousand

OTY&Amount Items	2008		2009		2009		2009	
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Passive Components	3,859,140	1,008,363	8,395,174	3,156,135	3,374,921	878,858	6,727,904	2,704,780
Active Components	27,856	429,249	386,762	2,856,873	33,248	369,994	447,809	3,013,630
System & Modules	33,402	943,515	62,136	1,516,166	26,746	641,625	67,806	1,475,273
Others	25,089	291,682	113,651	2,575,471	30,168	194,873	136,739	1,826,896
Total	3,945,487	2,672,809	8,957,723	10,104,645	3,465,083	2,085,350	7,380,258	9,020,579

5.3. Employee Analysis

Year		2008	2009	As of April 30, 2010
Number of Employees	Direct Employees	321	338	351
	Indirect Employees	459	442	447
	Total	780	780	798
Average Age		33.24	34.15	34.28
Average Years of Employment		4.60	5.20	5.58
Level of Education (%)	Ph.D.	0.64	0.38	0.38
	Master's Degree	5.90	5.63	5.77
	Bachelor's & Associate Degree	53.72	53.46	53.63
	Senior High School	37.31	37.72	37.59
	Others	2.43	2.81	2.63

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. Total Losses and Fines for Environmental Pollution for the Two Most Recent Fiscal Years and as of the Date of This Annual Report.

Total losses and fines of the Company for environmental pollution during 2008-2009 and as of the date of this annual report were small and insignificant, and the Company has made improvement.

5.4.2. Measures and Possible Disbursements to Be Made in the Future.

5.4.2.1 Continue to exercise the the environmental protection policies:

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

5.4.2.2 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.

5.4.2.3 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."

5.4.2.4 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."

5.4.2.5 In order to Exercise environmental protection and raise environmental quality, the Company plans to invest NT\$25,000 thousand and NT\$2,100 thousand in anti-polluted equipment to clean waste water and exhaust gas.

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

Please refer to the Company's online CSR Report for more details. (www.holystone.com.tw)

5.4.3. Expenditure on the environmental protection in the next three years

		Unit: NT\$1000	
<u>Item</u>	<u>The Content of Expenditure</u>	<u>Estimated Funds in Need</u>	
1	Exhaust gas and polluted water disposal equipment	\$	37,100
2	Testing fees for exhaust gas		600
3	Testing fees for polluted water emission		60
4	Disposal fees for polluted water		4,710
5	Disposal fees for waste		10,622
6	Environmental testing fees		900
7	Replacement fees for consumptive materials from exhaust gas		13,000
8	Others		3,000
		\$	69,992

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, 2010

Contract Classification	Company Name	Contract Duration	Main Contents	Term Limits
Distributorship and Agent Agreement	HITACHI	04.01.2010-03.31.2011	Capacitor	None
Distributorship and Agent Agreement	SKYWORKS	02.07.2005-09.30.2010	IC	None
Distributorship and Agent Agreement	MICROCHIP	04.01.2010-03.31.2011	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, 2010 (Note 1)
		2005	2006	2007	2008	2009	
Current assets		5,825,530	6,246,764	6,652,362	6,220,731	6,605,074	6,786,747
Funds and long-term investments		1,049,122	1,323,272	1,337,425	2,154,860	2,853,091	2,871,407
Property, plant and equipment		1,747,776	1,836,097	2,065,992	2,344,605	2,343,154	2,323,595
Other assets		34,563	21,611	6,855	7,028	6,197	5,051
Total assets		8,656,991	9,427,744	10,062,634	10,727,224	11,807,516	11,986,800
Current liabilities	Before distribution	2,110,932	2,633,161	2,525,342	2,270,835	2,560,709	2,583,728
	After distribution	2,711,047	3,410,425	3,400,895	2,719,868	(Note 2)	(Note 2)
Long-term liabilities		1,073,552	-	-	1,137,250	1,016,833	967,500
Other liabilities		14,021	9,931	6,714	13,012	56,332	58,368
Total liabilities	Before distribution	3,198,505	2,643,092	2,532,056	3,421,097	3,633,874	3,609,596
	After distribution	3,798,620	3,420,356	3,407,609	3,870,130	(Note 2)	(Note 2)
Capital stock		2,109,775	2,459,742	2,703,274	2,806,456	2,872,175	2,872,175
Capital surplus		2,056,738	2,546,528	2,747,093	2,741,791	2,763,032	2,763,032
Retained earnings	Before distribution	1,366,082	1,732,755	2,005,372	1,720,779	2,065,228	2,314,855
	After distribution	593,486	816,365	1,046,282	1,271,746	(Note 2)	(Note 2)
Unrealized gain or loss on financial instruments		-	56,808	83,013	(29,569)	454,949	417,416
Cumulative translation adjustments		(293)	2,776	6,394	73,076	34,041	25,509
Treasury stock		(73,816)	(13,957)	(14,568)	-	-	-
Total stockholders' equity	Before distribution	5,458,486	6,784,652	7,530,578	7,306,127	8,173,642	8,377,204
	After distribution	4,858,371	6,007,388	6,655,023	6,857,094	(Note 2)	(Note 2)

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2010 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	Year	Financial Information from 2005 to 2009 (Note 1)					As of March 31, 2010 (Note 1)
		2005	2006	2007	2008	2009	
Net sales		11,258,480	11,976,282	13,165,645	12,777,454	11,105,929	2,986,106
Gross profit		1,762,952	2,039,439	2,158,679	1,439,615	1,435,479	400,870
Operating income		1,240,827	1,445,871	1,495,071	693,376	761,308	217,270
Non-operating income and gains		63,540	86,362	118,497	270,842	320,491	90,075
Non-operating expenses and losses		100,816	116,473	139,210	149,874	46,746	5,900
Income before income tax from continuing operations		1,203,551	1,415,760	1,474,358	814,344	1,035,053	301,445
Net income from continuing operations		943,159	1,139,269	1,189,007	674,497	849,611	249,627
Income from discontinued department		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		943,159	1,139,269	1,189,007	674,497	849,611	249,627
Earnings per share (NT\$) (Note 2)		4.36	4.44	4.31	2.36	2.96	0.87

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2010 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 2005 to 2009

Year	Accounting Firm	CPA	Audit Opinion
2005	KPMG	Heng-Sheng Lin and Sung-Chi Tsai	An Modified Unqualified Opinion
2006	KPMG	Heng-Sheng Lin and Sung-Chi Tsai	An Modified Unqualified Opinion
2007	KPMG	Ching-Sung Wang and Heng-Sheng Lin	An Modified Unqualified Opinion
2008	KPMG	Ching-Sung Wang and Chia-Hsin Chang	An Modified Unqualified Opinion
2009	KPMG	Ching-Sung Wang and Chia-Hsin Chang	An Modified Unqualified Opinion

6.2. Financial Analysis

Item (Note 2)		Year					As of March 31, 2010 (Note 1)	
		Financial Analysis from 2005 to 2009 (Note 1)						
		2005	2006	2007	2008	2009		
Capital Structure Analysis (%)	Debt Ratio	36.95	29.52	25.16	31.89	30.78	30.11	
	Long-term Fund to Fixed Assets Ratio	373.73	369.52	364.50	360.12	392.23	402.17	
Liquidity Analysis %	Current ratio	290.18	227.61	263.42	273.94	257.94	262.67	
	Quick Ratio	235.16	174.14	197.24	200.23	202.03	203.08	
	Times Interest Earned	25.30	41.30	37.52	22.35	66.72	62.45	
Operating Performance Analysis	Average Collection Turnover (Times)	3.78	3.72	3.89	4.02	3.78	4.05	
	Days Sales Outstanding	97	98	94	91	97	90	
	Average Inventory Turnover (Times)	7.58	7.49	6.99	6.86	6.26	7.04	
	Average Payment Turnover (Times)	8.76	8.20	9.53	10.34	9.25	10.47	
	Average Inventory Turnover Days	48	49	52	53	58	52	
	Fixed Asset Turnover (Times)	6.90	6.68	6.75	5.79	4.74	5.12	
	Total Asset Turnover (Times)	1.30	1.24	1.31	1.19	0.94	1.00	
Profitability Analysis	Return on Total Assets (%)	11.41	12.77	12.54	6.66	7.66	8.53	
	Return on Equity (%)	19.12	18.61	16.61	9.09	10.98	12.07	
	To Paid-in Capital Ratio (%)	Operating Income	58.81	58.78	55.31	24.71	26.51	30.26
		Income before income tax	57.05	57.56	54.54	29.02	36.04	41.98
	Net Margin (%)	8.37	9.51	9.03	5.28	7.65	8.36	
	Earnings Per Share (NT\$) (2)	4.36	4.44	4.31	2.36	2.96	0.87	
Cash Flow(%)	Cash Flow Ratio (%)	50.35	48.18	46.81	51.54	52.46	2.50	
	Cash Flow Adequacy Ratio (%)	66.85	85.22	91.05	94.56	118.08	113.81	
	Cash Flow Reinvestment Ratio (%)	11.53	10.66	5.38	3.82	8.44	0.63	
Leverage	Operating Leverage	1.01	1.00	1.01	0.98	0.98	1.02	
	Financial Leverage	1.04	1.02	1.03	1.03	1.02	1.02	

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2010 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 2009 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, 2010

Supervisor: Tang-Ming Wu

Chung-Yi Yang

Ken-Yi Cheng

April 2, 2010

- 6.4. Financial Report of 2009:** Please refers to P.65 to P.108 in this report.
- 6.5. Consolidated Financial Report of 2009:** Please refers to P.109 to P.155 in this report.
- 6.6. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2009 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	2009	2008	Difference	
				Amount	%
Current asset		6,605,074	6,220,731	384,343	6.18
Long-term investment		2,853,091	2,154,860	698,231	32.40
Property, plant and equipment		2,343,154	2,344,605	(1,451)	(0.06)
Other assets		6,197	7,028	(831)	(11.82)
Total assets		11,807,516	10,727,224	1,080,292	10.07
Current liabilities		2,560,709	2,270,835	289,874	12.77
Long-term liabilities		1,016,833	1,137,250	(120,417)	(10.59)
Other liabilities		56,332	13,012	43,320	332.92
Total liabilities		3,633,874	3,421,097	212,777	6.22
Capital stock		2,872,175	2,806,456	65,719	2.34
Capital surplus		2,763,032	2,741,791	21,241	0.77
Retained earnings		2,065,228	1,720,779	344,449	20.02
Unrealized gain or loss on financial instruments		454,949	(29,569)	484,518	1,638.60
Cumulative translation adjustments		34,041	73,076	(39,035)	(53.42)
Total shareholders' equity		8,173,642	7,306,127	867,515	11.87
<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\$698,231 thousand in long-term investment: Increased long-term investment under equity method, increased earnings growth in investees under equity method, and increased available-for-sale financial assets.</p> <p>(2) An increase of NT\$43,420 thousand in other liabilities: Increased deferred tax liabilities-noncurrent.</p> <p>(3) An increase of NT\$344,449 thousand in retained earning: Increased net income of 2009.</p> <p>(4) An increase of NT\$484,518 thousand in unrealized gains or losses on financial instrument: Available-for-sale financial assets accounted by the mark-to-market method.</p> <p>(5) A decrease of NT\$39,035 thousand in cumulative translation adjustments: Due to changes in foreign currency exchange rate in the subsidiaries.</p>					

7.2. Operating Results

7.2.1. Operating Results Analysis Table

Unit: NT\$ thousands

Item \ Year	2009	2008	Difference	%
Net sales	11,105,929	12,777,454	(1,671,525)	(13.08)
Cost of goods sold	<u>(9,670,450)</u>	<u>(11,337,839)</u>	(1,667,389)	(14.71)
Gross profit	1,435,479	1,439,615	(4,136)	(0.29)
Unrealized gross profit from affiliates	<u>12,063</u>	<u>11,528</u>	535	4.64
Realized gross profit	1,447,542	1,451,143	(3,601)	(0.25)
Operating expenses	<u>(686,234)</u>	<u>(757,767)</u>	(71,533)	(9.44)
Operating income	761,308	693,376	67,932	9.80
Non-operating income and gains	320,491	270,842	49,649	18.33
Non-operating expenses and losses	<u>(46,746)</u>	<u>(149,874)</u>	(103,128)	(68.81)
Income before income tax from continuing operations	1,035,053	814,344	220,709	27.10
Income tax expenses	<u>(185,442)</u>	<u>(139,847)</u>	(45,595)	32.60
Net Income from continuing operations	<u>849,611</u>	<u>674,497</u>	175,114	25.96
<p>Note 1: Analysis of deviation in 2008 and 2009:</p> <p>(1) A decrease of NT\$103,128 thousand in non-operating expenses and losses: Recognitions of impairment loss.</p> <p>(2) Increases in income before income tax from continuing operations, net income from continuing operations, and income tax expenses: Decreased operating expense and increased non-operating income and gains.</p> <p>Note 2: Probable impact on corporate's financial business: No significant impacts.</p> <p>Note 3: Sales quantity forecast and related information : Not applicable.</p>				

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
1,107,952	1,343,430	(834,809)	1,616,573	-	-
<p>1. Analysis of cash flow:</p> <p>(1) Net cash provided by operating activities: It is resulted from increases in net income.</p> <p>(2) Net cash outflow in 2009: 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 outflow in financing activities is resulted from treasury stock repurchase and cancellation and cash dividends payment.</p> <p>2. Analysis of liquidity:</p> <p>An increase of NT\$173,096 thousand in net cash provided by operating activities in 2009 on a year-over-year basis.</p> <p>Cash flow ratio: 52.46%. Cash adequacy ratio: 118.08%. Cash reinvestment ratio: 8.44%.</p> <p>3. Cash flow projection for next year:</p>					
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	Financing Plan
1,616,573	801,850	(2,645,936)	(227,513)	-	Corporate bond issuance and cash capital increase implement

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			
				2009	2010	2011	2012
Land	Corporate bond issuance and cash capital increase implement	12/31/2010	137,250	-	137,250	-	-
Machinery and equipment	Corporate bond issuance and cash capital increase implement	03/31/2012	1,308,098	283,348	314,200	513,050	197,500

7.4.2. Expected Future Benefit

Capital expenditures of the Company are planed to purchase land and machinery & equipment to drive future operating growth.

7.5. Investments Exceeding 5% of Company's Paid-in Capital in 2009

Item	Amount (NT\$ thousands)	Policy	Root Cause of Profit or Loss	Improvement Action	Investment Plans
Holy Stone Holdings Co., Ltd.	NT\$27,207	Invested to enter into other industry.	The investee companies have made profits.	Intensified management	Assessing the necessity of increasing investment considering operating scale.
RONG JUAN INVESTMENT CO., LTD.	NT\$77,563	Invested to enter into other industry.	The investee companies have made profits.	Intensified 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 2009 and as of printed date of this Annual Report:

Unit: NT\$ thousands

Item	2009	As of Apr. 30, 2010
Interest Expense	15,750	6,477
Gain on Foreign Exchange	(7,576)	5,510

Source: Financial statement of 2009 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 expenses were only 0.14% and 0.17% of net sales in 2009 and as of Apr. 30, 2010, respectively; 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 2009 and the Company's Endorsement & Guarantee were NT\$20,000 thousand and NT\$52,000 on December 31, 2009 and as of the printed date of this annual report, respectively.

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 2009. 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 2009 and as of the date of this Annual Report, the Company had no such risk. The Company will also assess benefits from any merger or acquisition cautiously to assure stockholders' equity.

7.6.8. Risks Associated with Capacity Expansion

Litzer plant of the Company will kick off operation during 2010. The Company has transformed into a tantalum capacitors manufacturer from a distributor, and the transformation not only raises our competitiveness but also increases our revenues and earnings; therefore, there was no such risk to the Company.

7.6.9. Risks Associated with Purchase or Sales Concentration

The Company procures raw materials and commodities from multiple vendors to ensure sufficient supply and to mitigate purchase concentration risk. Major customers are domestic renowned companies, and the Company diversifies sales to customers with the increase of shipment. Consequently, there was no such risk to the Company.

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 2009 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 2009 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.

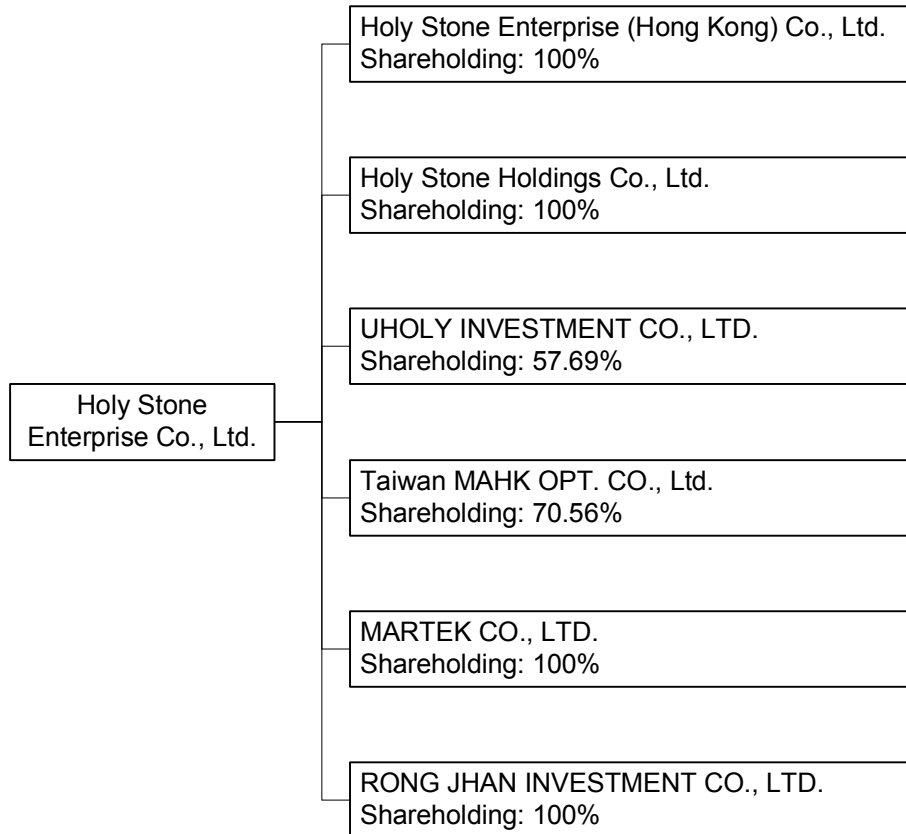
8. Special Notes

8.1. Affiliates

8.1.1. Affiliates Consolidated Operating Report

8.1.1.1 Holy Stone affiliated companies chart

As of 12/31/2009



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 and 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
MARTEK CO., LTD.	2008.02	6F.-1, No. 17, Ln. 91, Sec. 1, Neihu District, Taipei City, Taiwan	NTD\$ 38,000,000	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\$ 340,000,000	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, Chun-Ping Ma, and Ching-Hua Yang	17,639,600/176,396	70.56%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	17,639,600/176,396	70.56%
MARTEK CO., LTD.	Director	Representative of Holy Stone: Jen-Shing Lee, Jing-Rong Tang and Fang-Ming Lo	38,000,000/3,800,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	38,000,000/3,800,000	100%
RONG JHAN INVESTMENT CO., LTD.	Director	Representative of Holy Stone: Jing-Rong Tang, Fang-Ming Lo and Shih-Yun Sheng	340,000,000/34,000,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	340,000,000/34,000,000	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.	49,046	384,197	223,606	160,591	621,600	14,141	11,813	1.03
Holy Stone Holdings Co., Ltd. (Note 2)	841,951	1,771,825	879,059	892,766	2,060,696	37,252	27,207	1.01
UHOLY INVESTMENT CO., LTD. (Note 2)	390,000	1,111,026	31,854	1,079,172	174,942	(5,647)	62,307	1.60
Taiwan MAHK OPT. CO., LTD.	25,000	14,900	500	14,400	0	(7,661)	(10,319)	(41.28)
RONG JHAN INVESTMENT CO., LTD. (Note 2)	340,000	810,783	242,396	568,387	821,159	149,293	111,862	3.29

Note 1: Foreign exchange rates were NT\$31.99 and NT\$33.041 for US\$1 in Balance Sheet and Income Statement, respectively.

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

8.2. Private Placement Securities in 2009 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 2009 and as of the Date of this Annual Report

None.

8.4. Other Necessary Supplement: None.

8.5. Any Events in 2009 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

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, 2009 and 2008, 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, 2009 and 2008, the long-term equity investment amounts accounted for under equity method were NT\$1,318,084 thousand and NT\$1,669,365 thousand, and the related net investment gains of NT\$154,610 thousand and NT\$97,958 thousand for the year ended December 31, 2009 and 2008. 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, 2009 and 2008, 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.

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, 2009 and 2008, and have expressed an unqualified opinion on the consolidated financial statements.

Taipei, Taiwan
Republic of China

February 26, 2010

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

Balance Sheets

December 31, 2009 and 2008

(Expressed in Thousands of New Taiwan Dollars)

	12.31.2009		12.31.2008			12.31.2009		12.31.2008	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and stockholders' equity				
Current assets:					Current liabilities:				
Cash and cash equivalents (Note 4.1)	\$ 1,616,573	14	1,107,952	10	Short-term loans (Note 4.8 and 6)	\$ 885,258	7	656,469	6
Financial assets at fair value through profit or loss -current (Note 4.2)	467,968	4	229,612	2	Notes and Accounts Payable	1,033,853	10	1,001,390	9
Notes and accounts receivable, net (Note 4.3)	2,121,871	18	2,106,941	20	Payables to related parties (Note 5)	18,546	-	36,673	-
Receivables from related parties (Note 5)	816,592	7	838,033	8	Income tax payable	102,914	1	13,390	-
Other financial assets-current (Note 4.5 and 6)	81,432	-	122,941	1	Accrued expenses and other current liabilities (Note 5)	394,721	3	385,113	4
Inventories, net (Note 4.4)	1,423,741	12	1,666,465	16	Current portion of bonds payable (Note 4.10)	-	-	126,800	1
Prepaid expenses and other current assets (Note 4.12 and 5)	76,897	1	148,787	1	Current portion of long-term debt (Note 4.9)	125,417	1	51,000	-
Total current assets	6,605,074	56	6,220,731	58	Total current liabilities	2,560,709	22	2,270,835	20
Funds and investments:					Long-term liabilities (Note 4.9)	1,016,833	9	1,137,250	11
Available-for-sale financial assets-noncurrent (Note 4.2)	342,242	3	185,495	2	Other liabilities:				
Financial assets carried at cost-noncurrent (Note 4.2)	300,000	3	300,000	3	Accrued pension liabilities (Note 4.11)	21,466	-	12,740	-
Long-term equity investments under equity method (Note 4.5)	2,210,849	19	1,669,365	16	Deferred income tax liabilities-noncurrent (Note 4.12)	32,532	-	-	-
Total funds and investments (Note 4.6, 5 and 6)	2,853,091	25	2,154,860	21	Other liabilities	2,334	-	272	-
Property, plant and equipment:					Total other liabilities	56,332	-	13,012	-
Land	460,179	4	440,783	4	Total liabilities	3,633,874	31	3,421,097	31
Buildings	1,090,672	9	753,838	7	Stockholders' equity (Note 4.11 and 4.13):				
Machinery and equipment	1,312,059	11	1,409,761	13	Common stock	2,872,175	24	2,806,456	26
Leasing assets	47,569	-	71,071	1	Capital surplus	2,763,032	23	2,741,791	26
Other equipment	146,549	1	253,995	2	Retained earnings:				
Subtotal	3,057,028	25	2,929,448	27	Legal reserve	691,876	6	624,427	6
Less: Accumulated depreciation	(752,372)	(6)	(945,300)	(9)	Unappropriated earnings	1,373,352	12	1,096,352	10
Construction in progress and prepayments for equipment	38,498	-	360,457	3		2,065,228	18	1,720,779	16
Net property, plant and equipment	2,343,154	19	2,344,605	21	Others:				
Other assets (Note 4.7 and 12)	6,197	-	7,028	-	Cumulative translation adjustments	34,041	-	73,076	1
					Net loss unrecognized as pension cost	(15,783)	-	(6,406)	-
					Unrealized gain or loss on financial instruments	454,949	4	(29,569)	-
						473,207	4	37,101	1
					Total stockholders' equity	8,173,642	69	7,306,127	69
Total assets	\$ 11,807,516	100	10,727,224	100	Commitments and contingencies (Note 5 and 7)				
					Total liabilities and stockholders' equity	\$ 11,807,516	100	10,727,224	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, 2009 and 2008

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

	2009		2008	
	Amount	%	Amount	%
Gross sales	\$ 11,223,876	101	12,927,172	101
Less: Sales returns	(117,947)	(1)	(149,718)	(1)
Net sales (Note 5)	11,105,929	100	12,777,454	100
Cost of goods sold (Note 4.4 and 5)	(9,670,450)	(87)	(11,337,839)	(89)
Gross profit	1,435,479	13	1,439,615	11
Unrealized gross profit from affiliates (Note 5)	12,063	-	11,528	-
Realized gross profit	1,447,542	13	1,451,143	11
Operating expenses:				
Selling and administrative (Note 5)	(589,534)	(5)	(624,578)	(6)
Research and development	(96,700)	(1)	(133,189)	(1)
	(686,234)	(6)	(757,767)	(7)
Operating income	761,308	7	693,376	4
Non-operating income and gains:				
Interest income	10,564	-	13,497	-
Investment income recognized under equity method (Note 4.5)	181,817	2	97,958	1
Dividend income	13,265	-	14,181	-
Gain on disposal of investments	12,453	-	52,697	-
Foreign exchange gain	-	-	81,948	1
Valuation gain on financial assets (Note 4.2)	9,362	-	-	-
Others (Note 5)	93,030	1	10,561	-
	320,491	3	270,842	2
Non-operating expenses and losses:				
Interest expenses	(15,750)	-	(20,927)	-
Foreign exchange loss	(7,576)	-	-	-
Valuation loss on financial assets (Note 4.2)	-	-	(40,924)	-
Impairment loss	-	-	(81,998)	(1)
Others	(23,420)	-	(6,025)	-
	(46,746)	-	(149,874)	(1)
Income before income tax	1,035,053	10	814,344	5
Income tax expense (Notes 4.12)	(185,442)	(2)	(139,847)	(1)
Net income	<u>\$ 849,611</u>	<u>8</u>	<u>674,497</u>	<u>4</u>

	Before income tax	After income tax	Before income tax	After income tax
Earnings per share (Notes 4.14) (NT Dollars)				
Basic earnings per share	<u>\$ 3.61</u>	<u>2.96</u>	<u>2.91</u>	<u>2.41</u>
Basic earnings per share—retroactive			<u>\$ 2.86</u>	<u>2.36</u>
Diluted earnings per share	<u>\$ 3.55</u>	<u>2.92</u>	<u>2.83</u>	<u>2.34</u>
Diluted earnings per share—retroactive			<u>\$ 2.78</u>	<u>2.30</u>

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, 2009 and 2008
(Expressed in Thousands of New Taiwan Dollars)

	Retained Earnings				Others			Treasury stock	Total shareholders' equity
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain or loss on financial instruments		
Balance, January 1, 2008	\$ 2,703,274	2,747,093	505,526	1,499,846	6,394	-	83,013	(14,568)	7,530,578
Appropriations of prior year's earnings									
Legal capital reserve	-	-	118,901	(118,901)	-	-	-	-	-
Capitalization of stock dividends to shareholders	27,035	-	-	(27,035)	-	-	-	-	-
Capitalization of bonus to employees - in stock	56,500	-	-	(56,500)	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(811,055)	-	-	-	-	(811,055)
Bonus to employees - in cash	-	-	-	(37,500)	-	-	-	-	(37,500)
Bonus to directors and supervisors	-	-	-	(27,000)	-	-	-	-	(27,000)
Convertible bonds transferred to capital stock and capital surplus	19,647	52,653	-	-	-	-	-	-	72,300
Net loss not recognized as pension cost	-	-	-	-	-	(6,406)	-	-	(6,406)
Valuation adjustment on available-for-sale financial assets	-	-	-	-	-	-	(50,379)	-	(50,379)
Cumulative translation adjustments	-	-	-	-	66,682	-	-	-	66,682
Adjustment on long-term investments	-	(57,955)	-	-	-	-	(62,203)	-	(120,158)
Subsidiary trading in parent stocks	-	-	-	-	-	-	-	14,568	14,568
Net income for the twelve months ended December 31, 2008	-	-	-	674,497	-	-	-	-	674,497
Balance, December 31, 2008	2,806,456	2,741,791	624,427	1,096,352	73,076	(6,406)	(29,569)	-	7,306,127
Appropriations of prior year's earnings									
Legal capital reserve	-	-	67,449	(67,449)	-	-	-	-	-
Capitalization of stock dividends to shareholders	56,129	-	-	(56,129)	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(449,033)	-	-	-	-	(449,033)
Capitalization of bonus to employees - in stock	9,590	15,410	-	-	-	-	-	-	25,000
Valuation adjustment on available-for-sale financial assets	-	-	-	-	-	-	191,378	-	191,378
Net loss not recognized as pension cost	-	-	-	-	-	(9,377)	-	-	(9,377)
Cumulative translation adjustments	-	-	-	-	(39,035)	-	-	-	(39,035)
Adjustment on long-term investments	-	5,831	-	-	-	-	293,140	-	298,971
Net income for the twelve months ended December 31, 2009	-	-	-	849,611	-	-	-	-	849,611
Balance, December 31, 2009	\$ 2,872,175	2,763,032	691,876	1,373,352	34,041	(15,783)	454,949	-	8,173,642

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, 2009 and 2008

(Expressed in Thousands of New Taiwan Dollars)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 849,611	674,497
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	209,256	226,209
Other expenditures - accumulated depreciation on assets leased to others	368	448
Deferred credits - unrealized loss from intercompany profit	(12,063)	(11,528)
Allowance (reversal) for doubtful accounts	(19,175)	26,712
Loss on retirement of inventory	30,004	24,461
Allowance (reversal) for unrealized inventory valuation loss	(55,219)	120,236
Gain on disposal of available-for-sale financial assets -uncurrent	(18,655)	(2,847)
Loss on disposal of property, plant and equipment, net	22,788	5,578
Property, plant and equipment reclassified as expense	-	1,234
Cash dividends from investee's company accounted for using equity method	-	4,637
Investment gain accounted for using equity method, net	(181,817)	(97,958)
Impairment loss	-	81,998
Loss (gain) on disposal of long-term investments accounted for using equity method	6,202	(49,850)
Gain on buyback of bonds payable	(6)	-
Deferred income tax expense (benefit)	34,425	(17,747)
Changes in assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss - current	(238,356)	38,603
Decrease in notes and accounts receivable	4,245	473,283
Decrease (increase) in receivables from related parties	137,920	(15,276)
Decrease in other financial assets - current	41,509	17,280
Decrease (increase) in inventories	267,939	(173,925)
Decrease in prepaid expenses and other current assets	61,487	13,860
Increase (decrease) in notes and accounts payable	32,463	(47,923)
Decrease in payables from related parties	(18,127)	(40,473)
Increase (decrease) in income tax payable	89,524	(129,815)
Increase in accrued expenses and other current liabilities	97,696	48,748
Decrease in accrued pension liabilities	(651)	(108)
Increase in other liabilities	2,062	-
Net cash provided from operating activities	<u>1,343,430</u>	<u>1,170,334</u>
Cash flows from investing activities:		
Increase in receivables from related parties	(116,479)	-
Acquisition of available-for-sale financial assets - noncurrent	(5,471)	-
Proceeds from sale of available-for-sale financial assets - noncurrent	58,757	13,288
Increase in long-term equity investments	(140,000)	(811,250)
Proceeds from sale of long-term equity investments	15,685	25,675
Proceeds from return of capital by investee's company accounted for using equity method	26,892	-
Additions to property, plant and equipment	(283,348)	(590,552)
Proceeds from sale of property, plant and equipment	1,362	3,173
Decrease (increase) in other assets	831	(173)
Net cash used in investing activities	<u>(441,771)</u>	<u>(1,359,839)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	228,789	(58,917)
Borrowing of long-term loans	5,000	1,189,000
Repayment of long-term loans	(51,000)	(750)
Buyback and cancellation of bonds payable	(126,794)	-
Cash dividends	(449,033)	(811,055)
Directors' and supervisors' remuneration & employees' bonus	-	(64,500)
Net cash used in financing activities	<u>(393,038)</u>	<u>253,778</u>
Net increase in cash and cash in banks	508,621	64,273
Cash and cash in banks at beginning of period	1,107,952	1,043,679
Cash and cash in banks at end of period	<u>\$ 1,616,573</u>	<u>1,107,952</u>
Supplemental disclosure of cash flow information:		
Interest paid, excluding capitalization of interest	<u>\$ 15,793</u>	<u>40,332</u>
Income tax paid	<u>\$ 69,253</u>	<u>287,428</u>
Supplemental information on non-cash investing and financing activities:		
Unrealized loss (gain) on available-for-sale financial instruments	<u>\$ 484,518</u>	<u>(112,582)</u>
Changes in capital reserve from long-term equity investments	<u>\$ 5,831</u>	<u>(57,955)</u>
Current portion of bonds payable and long-term debt	<u>\$ 125,417</u>	<u>177,800</u>
Net loss not recognized as pension cost	<u>\$ (9,377)</u>	<u>(6,406)</u>
Convertible bonds converted into common stock and capital surplus	<u>\$ -</u>	<u>72,300</u>
Property, plant and equipment reclassified as other assets	<u>\$ -</u>	<u>81,998</u>
Cash used in acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	\$ 232,323	597,253
Add: Payable at beginning of period	72,048	65,347
Less: Payable at end of period	(21,023)	(72,048)
Payment in cash	<u>\$ 283,348</u>	<u>590,552</u>

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 Notes Originally Issued in Chinese

**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, 2009 AND 2008
(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, 2009 and 2008, the Company both had 780 employees.

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.

English Translations of Notes Originally Issued in Chinese

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 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/Liabilities 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. Recognized at fair value, and any profit or loss should be recognized on the income statement.
2. Available-for-sale Financial Assets: Recognized at fair value, and changes in fair value from subsequent revaluation, except impairment loss and foreign exchange loss on monetary assets, 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 previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease 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. Other Financial Assets/Liabilities: Carried at amortized cost calculated under effective interest rate, which is also used to calculate interest income/expense. 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.

English Translations of Notes Originally Issued in Chinese

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

Prior to December 31, 2008, inventories were stated at the lower of cost or fair value. Cost was determined using the weighted-average method. Market value represented replacement cost for raw materials and supplies and net realizable value for work in process and finished goods.

Effective from January 1, 2009, the Company adopted the amended ROC SFAS No. 10 "Inventories". Cost of merchandise amounts to expenditure that is essential to make inventories to achieve the status of available-for-sales and sales location. Inventories are stated at the lower of cost or net realizable value. Cost is calculated through weighed average method, and net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Finished goods, semi-finished goods, work-in-process, raw materials, and supplies are stated at the lower of cost or net realizable value, in which cost is calculated through standard cost method and net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Difference between standard cost and actual cost is amortized by percentage to ending inventory, while extraordinary loss is recognized as cost when happened.

(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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

(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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

3. Accounting Change

(1) Effective January 1, 2009, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 10, "Accounting for Inventories." According to the 21st paragraph, inventories are stated at the lower of cost or net realizable value. Such changes in accounting principle did not have significant effect on the Company's net income and earnings per share for the year ended December 31, 2009.

(2) 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.

4. Accounts Statement

4.1 Cash and Cash Equivalents

Details:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Cash on hand	\$ 1,325	2,675
Current deposit	1,424,873	767,319
Checking account	20,201	6,146
Deposit account	70,000	101,812
Cash equivalents-repurchase bonds	<u>100,174</u>	<u>230,000</u>
	<u>\$ 1,616,573</u>	<u>1,107,952</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.2 Financial Instrument

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

	<u>12.31.2009</u>	<u>12.31.2008</u>
Foreign stocks	\$ 15,342	-
Bonds	426,151	184,922
Open-ended funds	19,400	40,026
Foreign exchange swap contracts	6,921	3,674
Foreign currency forward contracts	<u>154</u>	<u>990</u>
Total	<u>\$ 467,968</u>	<u>229,612</u>

For the years ended December 31, 2009 and 2008, changes in fair value related to derivative financial instruments recognized in earnings was a net gain of NT\$9,362 thousand and a net loss of NT\$40,924 thousand, respectively.

The Company entered into derivatives transactions to hedge foreign currency exchange risk and interest risk exposure. As of December 31, 2009 and 2008, details of derivatives not applied to hedging accounting were as follows:

(1) Foreign exchange swap contracts

<u>12.31.2009</u>		<u>12.31.2008</u>	
<u>Principal(USD)</u>	<u>Term</u>	<u>Principal(USD)</u>	<u>Term</u>
\$ 890,000	98.12.22~99.01.05	6,860,000	97.12.30~98.01.06
340,000	98.12.22~99.01.05	6,850,000	97.12.30~98.01.06
5,400,000	98.12.22~99.01.05	-	
8,740,000	98.12.22~99.01.05	-	
2,500,000	98.12.22~99.01.05	-	
450,000	98.12.22~99.01.05	-	
5,400,000	98.12.22~99.01.05	-	
1,800,000	98.12.22~99.01.05	-	
650,000	98.12.22~99.01.05	-	
2,900,000	98.12.22~99.01.05	-	
2,200,000	98.12.22~99.01.05	-	
<u>3,200,000</u>	<u>98.12.22~99.01.05</u>	<u>-</u>	
<u>\$ 34,470,000</u>		<u>13,710,000</u>	

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 or loss on hedged items.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

(2) Foreign currency forward contracts

	<u>12.31.2009</u>		
	<u>Notional Principal</u>	<u>Currency</u>	<u>Expiry Date</u>
Sales of foreign currency forward contracts	USD <u>1,000</u>	USD to NTD	11.20.2009~01.25.2010
	<u>12.31.2008</u>		
	<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

4.2.2 Available-for-sale financial assets - noncurrent

	<u>12.31.2009</u>	<u>12.31.2008</u>
GSI TECHNOLOGY INC. (GSIT)	\$ 193,657	125,430
eGalax_eMPIA Technology Inc. (EETI)	114,290	46,872
INPAQ Technology Co., Ltd. (INPAQ)	<u>34,295</u>	<u>13,193</u>
Total	<u>\$ 342,242</u>	<u>185,495</u>

4.2.3 Financial assets carried at cost - noncurrent

	<u>12.31.2009</u>	<u>12.31.2008</u>
Preferred stock – China Trust Commercial Bank	<u>\$ 300,000</u>	<u>300,000</u>

4.3 Notes and Accounts Receivable

Details:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Notes receivable	\$ 128,404	151,705
Accounts receivable	2,040,216	2,015,310
Allowance for collectible accounts	<u>(46,749)</u>	<u>(60,074)</u>
	<u>\$ 2,121,871</u>	<u>2,106,941</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.4 Inventories

Details:

	<u>2009.12.31</u>	<u>2008.12.31</u>
Merchandise	\$ 950,799	1,199,187
Less: Allowance	<u>(104,946)</u>	<u>(118,748)</u>
Subtotal	<u>845,853</u>	<u>1,080,439</u>
Finished goods	246,219	301,296
Less: Allowance	<u>(21,822)</u>	<u>(55,147)</u>
Subtotal	<u>224,397</u>	<u>246,149</u>
Semi-finished goods	92,095	95,493
Less: Allowance	<u>(7,769)</u>	<u>(5,628)</u>
Subtotal	<u>84,326</u>	<u>89,865</u>
Work in process	84,018	67,791
Less: Allowance	<u>(1,975)</u>	<u>(2,714)</u>
Subtotal	<u>82,043</u>	<u>65,077</u>
Raw materials	185,867	193,292
Less: Allowance	<u>(1,871)</u>	<u>(11,369)</u>
Subtotal	<u>183,996</u>	<u>181,923</u>
Supplies	3,153	3,036
Less: Allowance	<u>(27)</u>	<u>(24)</u>
Subtotal	<u>3,126</u>	<u>3,012</u>
Total	<u>\$ 1,423,741</u>	<u>1,666,465</u>

For the years ended December 31, 2009 and 2008, the Company recognized related losses on inventories of (NT\$28,154) thousand and NT\$144,098 thousand, respectively, which included gains on inventories of NT\$55,219 thousand from the writeup of net realizable value and losses on inventories charged to cost of sales of NT\$120,236 thousand from the writedown of book value of inventories from cost to net realizable value, respectively.

4.5 Long-term Equity Investments

Details:

<u>Investee Company</u>		<u>12.31.2009</u>	<u>2009</u>
	<u>% of Ownership</u>	<u>Investment Cost</u>	<u>Gain (Loss) on</u>
		<u>Carrying Amount</u>	<u>Investments</u>
Valuation at equity:			
Holy Stone Enterprise (Hong Kong) Co., Ltd.	100.00%	\$ 49,046	160,591
Holy Stone Holdings Co., Ltd.	100.00%	841,951	892,765
UHOLY INVESTMENTS CO., LTD	57.69%	225,000	587,110
Taiwan Mahk Opt Co., Ltd.	70.56%	75,350	4,329
Kallex Co., Ltd.	-	-	-
Martek Co., Ltd.	100.00%	20,000	95,139
RONG JHAN INVESTMENTS CO., LTD.	100.00%	<u>340,000</u>	<u>470,915</u>
		<u>\$ 1,551,347</u>	<u>2,210,849</u>
			<u>181,817</u>

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

<u>Investee Company</u>	<u>12.31.2008</u>			<u>2008</u>
	<u>% of Ownership</u>	<u>Investment Cost</u>	<u>Carrying Amount</u>	<u>Gain (Loss) on Investments</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	46,791	(4,551)
Martek Co., Ltd.	100.00%	20,000	40,739	20,739
RONG JHAN INVESTMENTS CO., LTD.	100.00%	<u>200,000</u>	<u>253,352</u>	<u>53,352</u>
		<u>\$ 1,483,297</u>	<u>1,669,365</u>	<u>97,958</u>

- Holy Stone Holdings Co., Ltd., valued at equity method by the Company, proceeded with cash capital increase of NT\$32,302 thousand and NT\$558,948 thousand in January 2008 and April 2008, respectively, and the Company acquired by its original percentage of ownership.
- 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.
- 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 recognized as "Available-for-sale financial assets-noncurrent."
- GemSOC Innovision Inc., valued at equity method by the Company, has made liquidation in June 2008, and projected to return capital of NT\$4,797 thousand. As of December 31, 2009 and 2008, NT\$407 thousand and NT\$4,797 thousand of capital has net been return yet, respectively, and have been recognized as "Other financial assets-current."
- Holy Optics Enterprise Co., Ltd., valued at equity method by the Company, has made final accounts in December 2008, and projected to return capital of NT\$6,787 thousand. As of December 2008, the reduction capital has been received.
- Kallex Co., Ltd., valued at equity method by the Company, made capital reduction during September 2009 and returned capital of NT\$26,892 thousand. The Company sold stock of NT\$15,685 thousand during November 2009, and recognized losses on diposal of investment of NT\$6,202 thousand. As of December 31, 2009, receivables from the transaction have been received.
- 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 for NT\$20,000 thousand.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

8. 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 for NT\$50,000 thousand. In November, 2008, the Company made additional investment in JungChan's cash capital increase with NT\$150,000 thousand, NT\$10 per share. In February 2009, the Company made additional investment in JungChan's cash capital increase with NT\$140,000 thousand, NT\$10 per share.
9. For the years ended December 31, 2009 and 2008, equity in earnings/losses of equity method investees was a net gain of NT\$5,831 thousand and a net loss of NT\$57,955 thousand, respectively.

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, 2009 and 2008 are summarized as follows:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Assets leased to others-land	\$ 28,819	48,215
Assets leased to others-building	<u>18,750</u>	<u>22,856</u>
Subtotal	47,569	71,071
Accumulated depreciation	<u>(4,136)</u>	<u>(4,399)</u>
	<u>\$ 43,433</u>	<u>66,672</u>

4.7 Idle Assets

Details on idle assets of the Company as of December 31, 2009 and 2008 are summarized as follows:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Machinery and equipment	\$ 61,238	103,110
Other equipment	<u>7,696</u>	<u>16,791</u>
Subtotal	68,934	119,901
Less: Accumulated depreciation	(7,854)	(37,863)
Accumulated impairment	<u>(61,080)</u>	<u>(82,038)</u>
Total	<u>\$ -</u>	<u>-</u>

4.8 Short-term Loans

Details:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Purchases loans	<u>\$ 885,258</u>	<u>656,469</u>
Interest rate	<u>0.6265%~3.00%</u>	<u>1.40%~3.80%</u>

As of December 31, 2009 and 2008, the Company's credit lines on short-term loans which have not been used from financial institutions were NT\$1,996,773 thousand and NT\$2,053,057 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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

4.9 Long-term Liabilities

Details:

<u>Creditor</u>	<u>Line of Credit and Key Terms</u>	<u>12.31.2009</u>	<u>12.31.2008</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	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	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	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	300,000
CTCB, Tunpei Branch	The borrowing amount is NT\$300,000 thousand. With interest paid monthly from June 2009 to June 2012, and principal paid semi-annually based on the average amortization method since the second year, meaning a one-year deferred period of principal payment.	5,000	-
	Subtotal	1,142,250	1,188,250
Less: Current portion		<u>(125,417)</u>	<u>(51,000)</u>
		<u>\$ 1,016,833</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 0.910 percent to 2.673 percent and 1.660 percent to 2.673 percent in 2009 and 2008, respectively.
3. As of December 31, 2009 and 2008, long-term loans not be used by the Company totaled NT\$907,750 thousand and NT\$861,750 thousand, respectively.
4. As of December 31, 2009, the loan balance should be paid as follows:

<u>Period</u>	<u>Amount</u>
01.01.2010~12.31.2010	\$ 125,417
01.01.2011~12.31.2011	441,833
01.01.2012~12.31.2012	366,583
01.01.2013~12.31.2013	208,417
	<u>\$ 1,142,250</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.10 Bonds Payable

Details:

	12.31.2009	12.31.2008
Domestic unsecured bond 2	\$ -	126,800
Corporate bonds due in one year	-	(126,800)
	\$ -	-

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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

In 2008, certain bondholders exercised their rights to convert bonds into 1,964,670 shares in common stock with the principal amount of NT\$72,300 thousand. 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. In 2009, the Company purchased and cancelled corporate bond payable of NT\$126,800 thousand for NT\$126,794 thousand in the open market.

4.11 Pension Plan

(1) Reconciliation of funded status of the plan and accrued pension cost at December 31, 2009 and 2008.

	<u>12.31.2009</u>	<u>12.31.2008</u>
Benefit obligation:		
Vested benefit obligation	\$ (7,823)	(5,841)
Nonvested benefit obligation	(88,866)	(77,948)
Accumulated benefit obligation	(96,689)	(83,789)
Additional benefits based on future salaries	(17,435)	(10,637)
Projected benefit obligation	(114,124)	(94,426)
Fair value of plan assets	75,223	71,048
Funded status	(38,901)	(23,378)
Unrecognized net transition obligation	33,218	17,044
Unrecognized net loss	(15,783)	(6,406)
Accrued pension cost	<u>\$ (21,466)</u>	<u>(12,740)</u>

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

	<u>2009</u>	<u>2008</u>
Service cost	\$ 1,996	2,234
Interest cost	2,125	3,496
Actual return on plan assets	(1,599)	(2,452)
Unamortized pension	507	789
Net periodic pension cost	<u>\$ 3,029</u>	<u>4,067</u>

(3) Actuarial assumptions are as follows:

	<u>2009</u>	<u>2008</u>
Discount rate used in determining present values	2.25%	2.25%
Salary adjustment rate	1.50%	1.00%
Expected rate of return on plan assets	2.25%	2.25%

For the year ended December 31, 2008 and 2009, pension cost was NT\$24,147 thousand and NT\$19,544 thousand, respectively.

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

4.12 Income Tax

(1) Currently, the Company is subject to ROC income tax at a maximum of 25%. According to the new announcement of revised ROC Income Tax Act on May 27, 2009, the Company would be subject to income tax rate of 20% commencing from 2010.

(2) The components of income tax for the years ended December 31, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Current income tax expense	\$ 151,017	157,594
Deferred income tax expense (benefit)	34,425	(17,747)
Income tax expense	<u>\$ 185,442</u>	<u>139,847</u>

The components of deferred income tax expense (benefit) for the years ended December 31, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Unrealized gain or loss on foreign exchange, net	\$ (18,097)	15,199
Unrealized loss on investment, net	55,530	24,489
Unrealized impairment loss, net	9,968	(20,326)
Loss for market price decline and obsolete and slow-moving inventories, net	12,108	(30,060)
Valuation Allowance- current changes in deferred income tax assets	(41,477)	(4,163)
Effect of change in income tax rate on deferred income tax	12,528	-
Others	3,865	(2,886)
	<u>\$ 34,425</u>	<u>(17,747)</u>

(3) The estimated income tax calculated on pre-tax income at the Company's statutory income tax rate was reconciled with the actual income tax expense reported in the accompanying non-consolidated statements of income for the years ended December 31, 2009 and 2008, as follows:

	<u>2009</u>	<u>2008</u>
Estimated income tax expense calculated based on financial income before tax at statutory rate of 25%	\$ 258,763	203,586
Income from securities selling	(3,667)	(16,273)
Loss on capital reduction	-	(18,956)
Underestimation or overestimation on income tax of the past years	18,091	5,556
Effect of change in income tax rate	17,840	-
Valuation Allowance—current changes in deferred income tax assets	(41,477)	(4,163)
Investment allowance—5 years tax-free and machinery and equipment purchase	(71,590)	(65,775)
Additional tax at 10% on unappropriated earnings	10,189	11,102
Others	(2,707)	24,770
	<u>\$ 185,442</u>	<u>139,847</u>

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) The components of deferred income tax assets (liabilities) as of December 31, 2009 and 2008, were as follows:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Current deferred income tax assets:		
Losses on inventory valuation and obsolescence	\$ 27,682	48,408
Allowance for uncollectible accounts-over limit	5,430	11,582
Unrealized loss (gain) on foreign exchange, net	2,827	(13,678)
Others	<u>153</u>	<u>183</u>
Net current deferred income tax assets	<u>\$ 36,092</u>	<u>46,495</u>
Noncurrent deferred income tax assets:		
Unrealized loss (gain) on investment, net	\$ -	34,355
Reductions and others	12,216	27,045
Valuation allowance	<u>(12,216)</u>	<u>(61,400)</u>
Net noncurrent deferred income tax assets	<u>\$ -</u>	<u>-</u>
Noncurrent deferred income tax liabilities:		
Long-term investment income under equity method	\$ 24,022	-
Cumulative translation adjustments	<u>8,510</u>	<u>-</u>
Net noncurrent deferred income tax liabilities	<u>\$ 32,532</u>	<u>-</u>

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

(5) The tax authorities have examined income tax returns of the Company through 2007.

(6) The integrated income tax system:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Unappropriated earnings before 1997	\$ 1,848	1,848
Unappropriated earnings after 1998	<u>1,371,504</u>	<u>1,094,504</u>
	<u>\$ 1,373,352</u>	<u>1,096,352</u>
Imputation credit account (ICA) balance	<u>\$ 159,234</u>	<u>252,034</u>

	<u>2009 (Expected)</u>	<u>2008 (Actual)</u>
Actual /estimated creditable ratio for earnings distribution	<u>19.11%</u>	<u>25.39%</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS (Continued)

4.13 Stockholders' Equity

1. Common Stock and Stock Issuances

On June 11, 2008, the Company's shareholders approved a resolution to increase capital of NT\$83,535 thousand, including employees' bonus of NT\$56,500 thousand), from retained earnings. The record date for stock issuance was August 12, 2008. The stock issuance was authorized by and registered with government authorities.

Par value of NT\$72,300 thousand of the Company's convertible bond has been converted into common stock of NT\$19,647 thousand, with the paid-in-capital in excess of par value of NT\$52,653 thousand.

On June 16, 2009, the Company's shareholders approved a resolution to distribute a stock dividend of NT\$56,129 thousand and a stock dividend as employees' bonus of NT\$25,000 thousand, amounted to 6,572 thousand shares (including 959 thousand shares as employees' bonus), through capital increase. The record date for stock issuance was August 26, 2009. The stock issuance was authorized by and registered with government authorities.

As of December 31, 2009 and 2008, the Company's authorized common stock consisted of NT\$4,500,000 thousand, with par value of NT\$10 per share, of which NT\$2,872,175 and NT\$2,806,456, respectively, were issued as capital.

2. Treasury Stock

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

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	314	-	314	-
	314	-	314	-

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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

3. Capital Surplus

According to the ROC Company Act, realized capital surplus could only be transferred to common stock after deducting the accumulated deficit, if any, and cannot be applied to cash dividend payment. Realized capital surplus stated above included premium from issuing stock and donated assets received. As of December 31, 2009 and 2008, the components of capital surplus were as follows:

	<u>12.31.2009</u>	<u>12.31.2008</u>
From cash capital increase	\$ 945,386	945,386
From convertible bonds	1,463,082	1,463,082
From treasury stock	424	424
From Merger	144,225	144,225
From employees stock option	163,547	163,547
From employees' bonus	15,410	-
From long-term equity investment	30,958	25,127
	<u>\$ 2,763,032</u>	<u>2,741,791</u>

4. Legal Reserve

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

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2009 and 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. On March 30, 2009, the Board of Directors approved a resolution to revise the employees' bonus rate to 16%, considering the operating forecast of 2009 and allocation status of the past year. In 2009 and 2008, bonus to employees was NT\$119,005 thousand and NT\$49,383 thousand, respectively, and remuneration to directors and supervisors was NT\$22,313 thousand and NT\$14,951 thousand, respectively. If employees' bonus is 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 the income of 2010 and 2009, respectively.

The appropriation of 2009 and 2008 earnings was approved at the shareholders' meetings on June 16, 2009, and June 11, 2008, respectively as follows:

	<u>2008</u>	<u>2007</u>
Stock dividends to employees as bonus	\$ 25,000	56,500
Employee bonuses-cash	25,500	37,500
Directors' and supervisors' remuneration	<u>15,100</u>	<u>27,000</u>
	<u><u>\$ 65,600</u></u>	<u><u>121,000</u></u>

The appropriation of earnings differed from the resolutions approved by the Company's board of directors in NT\$811 thousand, recognized as changes in accounting estimate and reported on the income statement of 2009. The difference was caused because of needs of future business development, production equipment expansion, and operating funds adjustment.

Appropriation of employees' bonus and directors' and supervisors' emoluments, kept for the approval of the Company's board of directors and the resolution of shareholders' meeting, and the related information can be obtained on the public information website.

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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

8. Employee Stock options plans (ESO Plans)

In order to attract well-performed employees and encourage each employee to create interests 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 than 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, 2009 (NTD)	Issuing Way
2006 1 st ESO Plan	07.10.2006	1	5,000,000	08.21.2006	1,500,000	\$ 49.3	36.80	In turn
"		-	-	06.15.2007	3,500,000	58.5	45.00	"
2007 1 st ESO Plan	11.11.2007	1	10,000,000	12.03.2007	10,000,000	50.0	41.40	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% four 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 stock option two years after they received and it would become to 75% three years after, and 100% four years after.

As of December 31, 2009, details of vested options of ESO Plans were as follows:

ESO Plans	Units Granted Issued	Units Actually Issued	Units Converted	Units Before Converted	Duration
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 st 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 15,000,000 units, totaled 15,000,000 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, 2009 and 2008 since market value of stock at measurement date was equal to exercise price.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

(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\$94,853 thousand and NT\$117,266 thousand in 2009 and 2008, 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>
Units issued	10,000,000	3,500,000	1,500,000
Dividend yield	- %	- %	5.71 %
Expected volatility	23.75 %	14.53 %	23.73 %
Risk-free interest rate	2.25 %	2.37 %	1.77 %
Expected continuing period	10 years	6 years	6 years
Fair value per unit (NTD)	NT\$18.755	NT\$12.196	NT\$5.120

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

<u>Stock Option</u>	<u>2009</u>		<u>2008</u>	
	<u>Unit</u> (in thousands)	<u>Weighted-average exercise price</u> (NT\$)	<u>Unit</u> (in thousands)	<u>Weighted-average exercise price</u> (NT\$)
Outstanding balance at the beginning of period	16,049	\$ 43.11	16,049	\$ 49.08
Option granted	-	-	-	-
Options exercised	-	-	-	-
Option expired	(1,049)	-	-	-
Outstanding balance at the end	<u>15,000</u>	41.78	<u>16,049</u>	43.11
Exercisable number at the end	<u>4,375</u>	41.66	<u>1,799</u>	28.05

C. As of December 31, 2009, details of outstanding options of the ESO plans were as follows:

<u>Exercise price</u> (NT\$)	<u>Outstanding stock options as of Dec. 31, 2009</u>			<u>Vested options</u>	
	<u>Units</u>	<u>Remaining vesting period</u>	<u>Exercise price</u> (NT\$)	<u>Units as of 12.31.2009</u>	<u>Exercise price</u> (NT\$)
\$ 36.80	1,500,000	2.64	\$ 36.80	1,125,000	\$ 36.80
45.00	3,500,000	3.45	45.00	1,750,000	45.00
41.40	10,000,000	7.93	41.40	1,500,000	41.40

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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:

		2009	2008
Net income	Net income as reported	\$ 849,611	674,497
	Pro forma net income	778,471	586,548
Basic earnings per share	Basic EPS as reported	2.96	2.36
(NT Dollars)	Pro forma basic EPS	2.71	2.06

4.14 Earnings per Share

The Company's basic earnings per share and diluted earnings per share of 2009 and 2008 were computed as follows:

	2009		2008	
	Before income tax	After income tax	Before income tax	After income tax
Basic EPS				
Net income	\$ 1,035,053	849,611	814,344	674,497
Weighted average number of shares outstanding (in thousand)	286,781	286,781	279,608	279,608
Basic EPS (NT Dollars)	\$ 3.61	2.96	2.91	2.41
Basic EPS-retroactive				
Net income			\$ 814,344	674,497
Weighted average number of shares outstanding (in thousand)			285,200	285,200
Basic EPS- retroactive (NT Dollars)			\$ 2.86	2.36
Diluted EPS				
Net income	\$ 1,035,053	849,611	814,344	674,497
Weighted average number of shares outstanding (in thousand)	286,781	286,781	279,608	279,608
Effect of dilutive potential common stock				
Expensing employee bonus	3,412	3,412	2,746	2,746
Employee stock options	-	-	448	448
Domestic convertible bond	1,042	1,042	4,865	4,865
Diluted EPS- weighted average number of shares outstanding (in thousand)	291,235	291,235	287,667	287,667
Diluted EPS (NT Dollars)	\$ 3.55	2.92	2.83	2.34
Diluted EPS-retroactive				
Diluted EPS-net income			\$ 814,344	674,497
Weighted average number of shares outstanding (in thousand)			285,200	285,200
Effect of dilutive potential common stock				
Expensing employee bonus			2,801	2,801
Employee stock options			457	457
Domestic convertible bond			4,962	4,962
Diluted EPS- weighted average number of shares outstanding (in thousand)			293,420	293,420
Diluted EPS-retroactive (NT Dollars)			\$ 2.78	2.30

English Translations of Notes Originally Issued in Chinese

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, 2009 and 2008, the fair value of the Company's financial assets and liabilities was as follows:

	12.31.2009		12.31.2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 1,616,573	1,616,573	1,107,952	1,107,952
Notes and accounts receivable (including related parties)	2,938,463	2,938,463	2,944,974	2,944,974
Financial assets at fair value through profit or loss-current:	467,968	467,968	229,612	229,967
Available-for-sale financial assets - noncurrent	342,242	342,242	185,495	185,495
Financial assets carried at cost - noncurrent	300,000	Note	300,000	Note
Financial liabilities:				
Short-term loans	885,258	885,258	656,469	656,469
Notes and accounts payable (including related parties)	1,052,399	1,052,399	1,038,063	1,038,063
Bonds payable (current portion)	-	-	126,800	124,264
Long-term borrowing (including current portion)	1,142,250	1,142,250	1,188,250	1,188,250

Remarks: Preferred stock with annual dividend of 3.5%. The fair value of non-publicly traded stocks is unavailable since there is no active market transaction.

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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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:

	12.31.2009		12.31.2008	
	Publicly quoted market prices	Fair value based on valuation technique	Publicly quoted market prices	Fair value based on valuation technique
Financial assets:				
Cash and cash equivalents	\$ -	1,616,573	-	1,107,952
Notes and accounts receivable (including related parties)	-	2,938,463	-	2,944,974
Financial assets at fair value through profit or loss-current:	460,893	7,075	224,948	5,019
Available-for-sale financial assets - noncurrent	342,242	-	185,495	-
Financial liabilities:				
Short-term loans	-	885,258	-	656,469
Notes and accounts payable (including related parties)	-	1,052,399	-	1,038,063
Bonds payable (current portion)	-	-	124,264	-
Long-term borrowing (including current portion)	-	1,142,250	-	1,188,250

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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

(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\$20,275 thousand different.

5. Related-party Transactions

5.1 Name and Relationship

<u>Name of related party</u>	<u>Relationship with the company</u>
Holy Stone Enterprise (Hong Kong) Co., Ltd. ("Holy Stone H.K")	Subsidiary of Holy Stone (H.S)
Holy Stone Holdings Co., Ltd. ("Holy Stone Holdings")	Subsidiary of Holy Stone (H.S)
Taiwan MAHK OPT. CO., Ltd. ("Taiwan MAHK")	Subsidiary of Holy Stone (H.S)
MARTEK CO., LTD. ("MARTEK")	Subsidiary of Holy Stone (H.S)
Hec Japan Technology Co., Ltd. ("HEC")	Subsidiary of Holy Stone Holdings (H.S.H) (Liquidated in April 2009)
TAIWAN ALPHA SYSTEM CO. ("ALPHA")	Subsidiary of UHOLY INVESTMENT (U.I) (Liquidated in November 2008)
OHGA Electronic Co., Ltd. ("OHGA")	Subsidiary of RONG JHAN INVESTMENT
eGalax_eMPIA Technology Inc. ("EETI")	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)
All directors and supervisors, president and vice presidents	Main management team of the Company
Holyoptics Enterprise Co., Ltd. ("Holyoptics")	Subsidiary of H.S (liquidated in December 2008)

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

5.2 Significant Transactions with Related Parties

Significant transactions with related parties in 2009 and 2008, and the transaction remainders as of December 31, 2009 and 2008 were as follows:

1. Sales

	2009		2008	
	Amount	% of net sales	Amount	% of net sales
Holy Stone (Hong Kong)	\$ 558,917	5.03	670,309	5.25
Holy Stone (Shanghai)	1,014,493	9.13	1,041,811	8.15
INFORTECH International Trading	-	-	70,996	0.56
INFORTECH (CHINA)	305,735	2.75	188,106	1.47
Others	941	0.01	9,516	0.07
	\$ 1,880,086	16.92	1,980,738	15.50

As of December 31, 2009 and 2008, the deferred unrealized gross profits, made by downstream transactions with the affiliates, were NT\$20,702 thousand and NT\$32,765 thousand 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 since June 2008.

2. Purchases

	2009		2008	
	Amount	% of net purchases	Amount	% of net purchases
EETI	\$ 114,933	1.30	105,353	0.99
Others	10,977	0.12	456	0.01
	\$ 125,910	1.42	105,809	1.00

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 month-end 30 to 150 days and month-end 30 to 120 days, respectively.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

7. 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 recognized as construction in progress and prepayments for equipment or machinery and equipment. 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 recognized as construction in progress and prepayments for equipment. 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.

8. Others

(1) During 2009 and 2008, the Company paid commissions of NT\$47,271 thousand and NT\$30,468 thousand, respectively, to MGT and HSE for business promotion. The commissions were recorded in the selling and administrative account. Unpaid commission was NT\$2,998 thousand and NT\$0 thousand as of December 31, 2009 and 2008, respectively.

(2) On January 1, 2009, the Company contracted with OHGA as a consultant to build up SAP system from January 1, 2009 to July 31, 2009 and recognized service revenue of NT\$6,000 thousand. As of December 31, 2009, receivables were NT\$2,599 thousand.

(3) As of December 31, 2009 and 2008, receivables from related parties due to on behalf of the Company, other expenses and other expenditure, amounted to NT\$2,355 thousand and NT\$196 thousand, respectively.

(4) In June 2009, the Company and INFORTECH, a subsidiary of the Company, sold Texas Instruments distribution business, including the contract signed with Texas Instruments, right and obligation, customer relationship, and transaction materials, to Serial Microelectronics Pte Ltd. for US\$3,435 thousand. The Company recognized the transfer revenue of NT\$50,673 thousand (US\$2,577 thousand) as other revenues. The Company also acquired US\$858 thousand on behalf of INFORTECH, and as of December 31, 2009, the amount has been received.

9. Endorsements/Guarantees

On December 31, 2009 and 2008, the remainders of the endorsements/guarantees made by the Company for Martek were both NT\$20,000 thousand.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

10. Details on receivables from related parties on December 31, 2009 and 2008 were summarized as follows:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Notes and accounts receivable	\$ 695,154	837,837
Other receivables	121,438	196
	<u>\$ 816,592</u>	<u>838,033</u>

11. Details on payables from related parties on December 31, 2009 and 2008 were summarized as follows:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Notes and accounts payable	\$ 15,548	18,579
Other payables	2,998	18,094
	<u>\$ 18,546</u>	<u>36,673</u>

5.3 Main Managers' Remuneration

Details on remuneration paid to directors, supervisors, president, and vice presidents in 2009 and 2008 were summarized as follows:

	<u>2009</u>	<u>2008</u>
Remuneration	\$ 46,592	26,202
Expense of execution	920	600
Employees' bonus	37,000	7,000

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.

6. Pledged Assets

As of December 31, 2009 and 2008, 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>12.31.2009</u>	<u>12.31.2008</u>
Time deposits (recognized as the other financial assets-current)	Import duties	\$ 36,524	37,482
Land	Short-term loans	75,891	75,891
Buildings	"	6,734	7,047
Total		<u>\$ 119,149</u>	<u>120,420</u>

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

7. Commitments and Contingencies

The outstanding letters of credit facilitate the Company's purchase of materials. As of December 31, 2009 and 2008, the Company's outstanding letters of credit amounted to NT\$112,719 thousand and NT\$79,437 thousand, respectively.

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:

Characters	Functions	2009			2008		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personal Costs							
Payroll		184,132	362,195	546,327	213,259	356,692	569,951
Labor and health i		16,409	17,837	34,246	18,649	20,056	38,705
Pension expense		10,993	11,577	22,570	12,932	15,247	28,179
Other (Note 2)		4,595	7,872	12,467	5,875	11,677	17,552
Depreciation		188,605	20,651	209,256	190,970	35,239	226,209

Note: Including meal expenses and training expenses.

10.2 Reclassification

Figures of 2008 financial statements were reclassified properly in order to match those of 2009 financial statements.

11. Additional Disclosures

11.1 Significant Transaction Information

In 2009, the additional disclosures required by the Regulations Governing the Preparation of Financial Report were as follows:

1. Financing to related parties:

Unit: NT\$ thousand

No.	Lender	Borrower	Subject	Maximum balance	Lending balance	Interest rate	Character	Transaction amount	Necessity of short-term financing	Allowance for doubtful accounts	Collateral		Limitations to individual borrower	Total limitations
											Item	Value		
0	The Company	Holy Stone Holding Co., Ltd.	Other receivables	116,479	116,479	1.80%	Necessity of short-term financing	-	Operation turnover	-	-	-	1,307,783	3,269,457

2. Endorsement/guarantee provided:

No.	Endorser/ Guarantor Company	Endorsee/Guarantee Company		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
		Nature of Relationships							
0	The Company	Martek Co., Ltd.	Subsidiary	1,634,728	37,000	20,000	-	0.24%	4,086,821

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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

3. Marketable securities held:

Unit: thousand shares

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2009				Note
				Shares (unit)	Carrying Value	Percentage of Ownership	Market Value (Net Asset Value)	
The Company	INDIA ETF	-	Financial assets at fair value through profit or loss - current – foreign stock	8	5,648	-	5,648	-
The Company	KOREA INDEX FUND	-	"	2	3,048	-	3,048	-
The Company	GPPC Corporate Bond A	-	"	150	15,000	-	15,000	-
The Company	RSX	-	"	4	3,997	-	3,997	-
The Company	SJM HOLDINGS	-	"	150	2,649	-	2,649	-
The Company	Cathay MAN AHL Diversified Future Fund	-	Financial assets at fair value through profit or loss - current – open-ended fund	1,000	9,420	-	9,420	-
The Company	JF (Taiwan) China Best Selection	-	"	1,000	9,980	-	9,980	-
The Company	Advanced International Multitech Corporate Bond B	-	Financial assets at fair value through profit or loss - current – bond	200	20,808	-	20,808	-
The Company	Huaku Corporate Bond B	-	"	450	46,359	-	46,359	-
The Company	CHIPBOND Corporate Bond B	-	"	400	41,212	-	41,212	-
The Company	Ambassador Hotel Corporate Bond A	-	"	300	30,453	-	30,453	-
The Company	Masterlink Corporate Bond A	-	"	500	51,005	-	51,005	-
The Company	KUNG LONG Corporate Bond A	-	"	500	52,671	-	52,671	-
The Company	TMTEC Corporate Bond B	-	"	30	31,059	-	31,059	-
The Company	CTCI Corporate Bond A	-	"	20	20,000	-	20,000	-
The Company	TA CHEN STAINLESS PIPE Corporate Bond A	-	"	100	10,000	-	10,000	-
The Company	First Bank 2PP1 STRIP Corporate Bond	-	"	-	99,530	-	99,530	-
The Company	CB 2 (Forward Electronics)	-	"	300	28,950	-	28,950	-
The Company	CB 1 (Uni-president)	-	"	40	4,104	-	4,104	-
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of the Company	Long-term equity investment	11,500	160,591	100.00	160,591	-
The Company	Holy Stone Holdings Co., Ltd. Stock	"	"	26,976	892,765	100.00	892,765	-
The Company	UHOLY Investments Co., Ltd.	"	"	22,500	587,110	57.69	585,732	-
The Company	Taiwan Mahk Opt Co., Ltd. Stock	"	"	176	4,329	70.56	10,161	-
The Company	Martek Co., Ltd. Stock	"	"	3,800	95,139	100.00	95,139	-
The Company	JungChan Investments Co., Ltd. Stock	"	"	34,000	470,915	100.00	470,915	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets - noncurrent	1,351	193,657	-	193,657	-
The Company	eGalax_eMPIA Technology Inc. Stock	-	"	1,304	114,290	-	114,290	-
The Company	INPAQ Technology Co., Ltd. Stock	-	"	1,117	34,295	-	34,295	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	Financial assets carried at cost - noncurrent	7,500	300,000	-	-	-

English Translations of Notes Originally Issued in Chinese

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	-	-	-	-	115,262	1,590,000	115,262	1,590,000	1,590,621	621	-	-	
The Company	Yuanta Wan-tai Fund		-	-	2,774	40,000	29,075	420,000	31,849	460,392	460,000	392	-	-	
The Company	Mega Diamond Bond Fund	"	-	-	-	-	86,478	1,030,000	86,478	1,030,685	1,030,000	685	-	-	
The Company	Cathay Bond Fund	"	-	-	-	-	13,411	160,000	13,411	160,331	160,000	331	-	-	
The Company	EnTrust Phoenix Bond Fund	"	-	-	-	-	12,857	200,000	12,857	200,183	200,000	183	-	-	
The Company	JungChan Investments Co., Ltd. Stock	Long-term equity investment	Note	Note	20,000	253,352	14,000	140,000	-	-	-	-	77,563	34,000	470,915

Note: The Company increase held shares through participating in JungChan's capital increase.

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	558,917	5.03%	Next month-end 120 days	-	-	217,590	7.40%	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	Sales	1,014,493	9.13%	Next month-end 150 days	-	-	405,180	13.79%	-
The Company	INFORTECH (CHINA) Co., Ltd.	Subsidiary of H.S.I	Sales	305,735	2.75%	Month-end 120 days	-	-	72,170	2.46%	-

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	217,590	2.55	-	-	56,690	-	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	405,180	2.17	-	-	86,280	-	-

9. Derivatives transaction:

Please refer to "Financial Statements Notes 4.2" to get the Company's derivatives transaction information in 2009.

English Translations of Notes Originally Issued in Chinese

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 2009 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, 2009			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				Dec. 31, 2009	Dec. 31, 2008	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%	160,591	11,813	11,813	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	SAMORA	Investment activities	841,951	250,701	26,976	100.00%	892,765	27,207	27,207	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	587,110	36,129	20,843	Subsidiary of the Company
The Company	Taiwan Mahk Opt Co., Ltd.	Yilan County	Miniature camera and components manufacturing and selling. Optical machinery and	75,350	75,350	176	70.56%	4,329	(10,319)	(7,282)	Subsidiary of the Company
The Company	Martek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	-	3,800	100.00%	95,139	54,400	54,400	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	-	-	-	(4,026)	(2,727)	Subsidiary of the Company
The Company	JungChan Investments Co., Ltd.	Taipei City	Investment activities	200,000	-	34,000	100.00%	470,915	77,563	77,563	Subsidiary of the Company
Holy Stone Holdings	Hec JAPAN TECHNOLOGY Co., Ltd.	Japan	Electronic components trading	USD 93,127	USD 93,127	-	-	-	JPY (10,018,005)	USD (587,135)	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 7,602,438	USD 936,173	USD 936,173	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 194,699	USD (273,813)	USD (273,813)	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	2,140	100.00%	USD 1,065,099	USD 56,749	USD 56,749	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 16,493,907	註	註	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 5,347,856	CNY 3,483,684	USD 504,437	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	USD -	2,100	100.00%	USD 2,217,686	CNY 3,014,559	USD 436,508	Subsidiary of Holy Stone Investments Co., Ltd.
INFORTECH (CHINA) CO., LTD.	Zierra (Wuhan) Electronic Tech Co., Ltd.	CHINA	Electronic components selling	CNY 1,500,000	CNY -	1,500	100.00%	CNY 1,467,637	CNY 107,034	CNY 107,034	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 160,919	CNY (1,868,856)	USD (270,611)	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 775,485	CNY (138,631)	USD (20,073)	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 100,215	USD 48,221	USD 48,221	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 168,806	GBP 18,828	USD 29,445	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%	29,208	9,077	4,675	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	1,266	29.79%	3,786	USD (612,698)	(5,899)	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%	35,188	CHF 230,528	21,605	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%	4,747	USD (1)	(27)	Subsidiary of Holy Stone Healthcare Co., Ltd.
The Company	OHGA Electronics Co., Ltd.	Taipei County	Electronic appliances and audio-visual electronics manufacturing	332,640	-	12,600	70%	394,538	114,329	80,030	Subsidiary of JungChan Investments Co., Ltd.

Note: The subsidiaries have recognized relevant income.

English Translations of Notes Originally Issued in Chinese

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

2. Financing to related parties:

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

Note: 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, 2009				Note
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
Holy Stone Holdings Co., Ltd.	CHINA THEMATIC FUN	-	Financial assets at fair value through profit or loss - current	3	USD 341,490	-	USD 341,490	-
Holy Stone Holdings Co., Ltd.	Stock of Holy Stone Investments Co., Ltd	Subsidiary of H.S.H	Long-term equity investment	6,900	USD 7,602,438	100.00	USD 7,602,438	-
Holy Stone Holdings Co., Ltd.	Stock of Holy PAQ Corporation	Subsidiary of H.S.H	Long-term equity investment	1,200	USD 194,699	100.00	USD 194,699	-
Holy Stone Holdings Co., Ltd.	Stock of Green Glory Holdings	Subsidiary of H.S.H	Long-term equity investment	2,140	USD 1,065,099	100.00	USD 1,065,099	-
Holy Stone Holdings Co., Ltd.	Stock of Mayatek Co., Ltd.	Subsidiary of H.S.H	Long-term equity investment	2,500	USD 16,493,907	100.00	USD 4,335,070	-
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 5,347,856	100.00	CNY 36,881,766	-
Holy Stone Investments Co., Ltd	Stock of INFORTECH (CHINA) CO., LTD.	Subsidiary H.S.I	Long-term equity investment	2,100	USD 2,217,686	100.00	CNY 15,294,389	-
INFORTECH (CHINA) CO., LTD.	Stock of Zierra (Wuhan) Electronic Tech Co. Ltd.	Subsidiary of G.G.H	Long-term equity investment	1,500	CNY 1,467,637	100.00	CNY 1,467,637	-
Holy PAQ CORPORATION	Stock of HolyPAQ (Dongguan) Corporation	Subsidiary of H.P	Long-term equity investment	1,000	USD 160,919	100.00	CNY 1,109,785	-
Green Glory Holdings	Stock of INFORTECH International Trading (Shanghai) Ltd.	Subsidiary of G.G.H	Long-term equity investment	1,000	USD 775,485	100.00	CNY 5,348,173	-
Green Glory Holdings.	Milestone Global Technology Ltd.	Subsidiary of G.G.H	Long-term equity investment	500	USD 100,215	100.00	USD 100,215	-
Green Glory Holdings.	Holystone (Europe) Ltd.	Subsidiary of G.G.H	Long-term equity investment	350	USD 168,806	100.00	GBP 104,654	-
UHOLY Investments Co. Ltd.	Fuh Hwa Fund	-	Financial assets at fair value through profit or loss - current	3,776	52,167	-	52,167	-
UHOLY Investments Co. Ltd.	Stock of CReTE	-	Financial assets at fair value through profit or loss - current	3	235	-	235	-
UHOLY Investments Co. Ltd.	Stock of NAK	-	Financial assets at fair value through profit or loss - current	50	1,655	-	1,655	-
UHOLY Investments Co. Ltd.	TSEC Taiwan 50	-	Financial assets at fair value through profit or loss - current	1	46	-	46	-
UHOLY Investments Co. Ltd.	Stock of Holy Stone Healthcare Co. Ltd.	Subsidiary. Of U.I	Long-term equity investment	6,500	29,208	49.62	29,208	-
UHOLY Investments Co. Ltd.	Stock of EET1	-	Available-for-sale financial assets - noncurrent	5,292	463,613	-	463,613	-
UHOLY Investments Co. Ltd.	Stock of INPAQ Technology Co., Ltd.	-	Available-for-sale financial assets - noncurrent	8,465	259,888	-	259,888	-

English Translations of Notes Originally Issued in Chinese

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, 2009				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	6.83	19,757	-
UHOLY Investments Co. Ltd.	Stock of Metanoia Communication Inc. Stock	-	Financial assets carried at cost - noncurrent	599	6,828	1.94	6,828	-
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	-	Long-term equity investment	1,266	3,786	29.79	USD 118,364	-
Holy Stone Healthcare Co., Ltd.	MDT INT'L SA	Subsidiary of H.H	Long-term equity investment	1,275	35,188	50.00	CHF 709,012	-
Holy Stone Healthcare Co., Ltd.	Global Search Holdings Ltd.	Subsidiary of H.H	Long-term equity investment	150	4,747	100.00	USD 148,386	-
Holy Stone Healthcare Co., Ltd.	Fuh Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	508	7,022	-	7,022	-
JungChan Investments Co., Ltd (J.C)	Stock of Metanoia Communication Inc. Stock	-	Financial assets carried at cost - noncurrent	150	4,500	0.47	4,500	-
JungChan Investments Co., Ltd	OHGA Electronics Co., Ltd.	Subsidiary of J.C	Long-term equity investment	12,600	394,538	70.00	394,538	-
JungChan Investments Co., Ltd	Fuh Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	1,777	24,557	-	24,557	-
JungChan Investments Co., Ltd	Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	1,759	21,034	-	21,034	-
JungChan Investments Co., Ltd	Cathay MAN AHL Diversified Future Fund	-	Financial assets at fair value through profit or loss - current	500	4,710	-	4,710	-
JungChan Investments Co., Ltd	Taiwan Hon Chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current	117	6,201	-	6,201	-
JungChan Investments Co.	Quanta Storage Inc.	-	Financial assets at fair value through profit or loss - current	187	11,501	-	11,501	-
JungChan Investments Co.	Longwell Company	-	Financial assets at fair value through profit or loss - current	150	8,025	-	8,025	-
OHGA Electronics Co., Ltd.	Yuanta Wan-tai Fund	-	Financial assets at fair value through profit or loss - current	2,420	35,019	-	35,019	-
OHGA Electronics Co., Ltd.	NIFC Bond Fund	-	Financial assets at fair value through profit or loss - current	59	10,019	-	10,019	-
OHGA Electronics Co., Ltd.	Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	837	10,010	-	10,010	-
OHGA Electronics Co., Ltd.	Masterlink Corporate Bond A	-	Financial assets at fair value through profit or loss - current	100	10,201	-	10,201	-
OHGA Electronics Co., Ltd.	KUNG LONG Corporate Bond A	-	Financial assets at fair value through profit or loss - current	100	10,534	-	10,534	-
OHGA Electronics Co., Ltd.	CHIPBOND Corporate Bond B	-	Financial assets at fair value through profit or loss - current	100	10,303	-	10,303	-

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;

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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	558,917	100.00 %	Next month-end 120 days	-	-	(217,590)	100.00%	-
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Subsidiary of H.S.I	Purchases	1,014,493	98.91 %	Next month-end 150 days	-	-	(405,180)	98.57%	-
INFOFORTECH (CHINA) CO., LTD.	The Company	Subsidiary of H.S.I	Purchases	305,735	71.67 %	Month-end 120 days			(72,170)	55.18%	

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

10. Derivatives transaction:

Investee Companies' Derivatives Transaction in 2009:

No.	Company Name	Derivative	Nominal Principal (thousand)	Term	Fair Value
1	Martek Co., Ltd.	Forward Foreign Exchange Contract	USD 1,000	10.01.2009~01.08.2010	(83)
1	Martek Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.01.2009~01.27.2010	(43)
1	Martek Co., Ltd.	Forward Foreign Exchange Contract	USD 500	11.20.2009~02.08.2010	63
1	Martek Co., Ltd.	Forward Foreign Exchange Contract	USD 1,000	12.07.2009~02.09.2010	29
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.19.2009~01.15.2010	83
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.19.2009~02.16.2010	67
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.19.2009~03.18.2010	61
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.19.2009~04.16.2010	59
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	12.07.2009~01.14.2010	28
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	12.07.2009~05.10.2010	16

Investee companies recognized financial assets at fair value through profit or loss – current of \$3,218 thousand in 2009.

11.3 Information on Investment in Mainland China

1. Status of investment

Unit: USD

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method	Accumulated Remittance as of Dec. 31, 2008	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2009	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, 2009
					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 504,437	USD 5,347,856	-
HolyPAQ (Dongguan) Corporation	Capacitors manufacturing and selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100 %	USD (270,611)	USD 160,919	-
INFOFORTECH International Trading (Shanghai) Ltd.	Electronic components R&D and selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100 %	USD (20,073)	USD 775,485	-
INFOFORTECH (CHINA) CO., LTD.	Electronic components selling	USD 2,100,000		USD 2,100,000	-	-	USD 2,100,000	100 %	USD 436,508	USD 2,217,686	-

Note: Excluding USD400,000 of capitalization of profits.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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) 246,643	(USD 8,110,000) 259,439	4,904,185

3. Significant transaction information of direct and indirect investment in investee company in Mainland China is described in Note 11.1 of Significant transaction information and No.11.2 of investee company information.

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\$9,020,579 thousand and NT\$,10,104,645 thousand in 2009 and 2008, and the details were as follows:

<u>Area</u>	<u>2009</u>	<u>2008</u>
Europe	\$ 67,915	70,512
Americas	112,372	137,347
Asia	8,839,143	9,895,999
Others	<u>1,149</u>	<u>787</u>
Total	<u>\$ 9,020,579</u>	<u>10,104,645</u>

12.4 Major Customers

For the year ended December 31, 2009, the Company had no major customers representing at least 10% of gross sales.

For the year ended December 31, 2008, sales to customers representing more than 10% of revenue were as follows:

	<u>2008</u>	
	<u>Net revenue</u>	<u>% of net revenue</u>
Tech-Com (Shanghai) Computer Co., Ltd.	\$ <u>1,505,505</u>	<u>11.78</u>

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, 2009, 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: February 26, 2010

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 consolidated balance sheets of Holy Stone Enterprise Company Limited as of December 31, 2009 and 2008, 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\$2,488,600 thousand and NT\$3,396,023 thousand as of December 31, 2009 and 2008, respectively, a 19.13 percent and 29.49 percent of total consolidated assets; consolidated revenues of 2009 and 2008 totaled NT\$2,011,482 thousand and NT\$3,553,436 thousand, respectively, a 15.21 percent and 24.85 percent of total consolidated revenues. Furthermore, as of December 31, 2009 and 2008, the long-term equity investment amounts accounted for under equity method were audited by other CPA, totaled NT\$3,786 thousand and (NT\$2,537) thousand, and the related net investment loss of NT\$5,899 thousand and NT\$6,534 thousand for the year ended December 31, 2009 and 2008. 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, 2009 and 2008, 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.

Taipei, Taiwan
Republic of China

February 26, 2010

English Translations of Consolidated Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2009 and 2008

(Expressed in Thousands of New Taiwan Dollars)

Assets	12.31.2009		12.31.2008		Liabilities and stockholders' equity	12.31.2009		12.31.2008	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (Note 4.1)	\$ 2,481,213	19	1,656,369	14	Short-term loans (Note 4.9 and 6)	\$ 1,148,575	9	656,969	6\$
Financial assets at fair value through profit or loss-current (Note 4.2)	702,445	5	376,607	3	Financial liabilities at fair value through profit or loss-current (Note 4.2)	34	-	-	-
Notes and accounts receivable, net (Note 4.3)	3,199,528	25	3,221,963	28	Notes and Accounts Payable	1,228,440	9	1,267,295	11
Other financial assets-current (Note 6)	156,360	1	123,871	1	Payables to related parties (Note 5)	15,548	-	18,579	-
Inventories, net (Note 4.4)	1,680,063	13	1,967,313	17	Income tax payable	140,640	1	45,862	-
Prepaid expenses and other current assets (Note 4.13)	91,539	1	179,020	2	Accrued expenses and other current liabilities	510,474	4	540,191	5
Total current assets	8,311,148	64	7,525,143	65	Current portion of bonds payable (Note 4.11)	-	-	126,800	1
Funds and investments:					Current portion of long-term debt (Note 4.10)	125,417	1	51,000	-
Available-for-sale financial assets-noncurrent (Note 4.2)	1,065,743	8	381,997	3	Total current liabilities	3,169,128	24	2,706,696	23
Financial assets carried at cost-noncurrent (Note 4.2)	508,894	4	500,193	4	Long-term liabilities				
Long-term equity investments under equity method (Note 4.5)	3,786	-	-	-	Long-term debt (Note 4.10)	1,016,833	8	1,137,250	10
Total funds and investments	1,578,423	12	882,190	7	Other liabilities:				
Property, plant and equipment: (Note 4.6, 5, 6, and 7)					Accrued pension liabilities (Note 4.12)	21,466	-	12,740	-
Land	460,179	4	441,288	4	Deferred tax liabilities (Note 4.13)	30,640	-	-	-
Buildings	1,224,985	9	894,040	8	Other liabilities	2,433	-	5,546	-
Machinery and equipment	1,343,825	10	1,455,490	13	Total other liabilities	54,539	-	18,286	-
Leasing assets	47,569	-	71,071	1	Total liabilities	4,240,500	32	3,862,232	33
Other equipment	199,125	2	306,880	3	Stockholders' equity (Note 4.12 and 4.14):				
Subtotal	3,275,683	25	3,168,769	29	Common stock	2,872,175	22	2,806,456	24
Less: Accumulated depreciation	(807,427)	(6)	(1,001,704)	(9)	Capital surplus	2,763,032	21	2,741,791	24
Accumulated Impairment	(680)	-	(759)	-	Retained earnings:				
Construction in progress and prepayments for equipment	38,498	-	360,456	3	Legal reserve	691,876	5	624,427	5
Net property, plant and equipment	2,506,074	19	2,526,762	23	Unappropriated earnings	1,373,352	11	1,096,352	10
Intangible assets (Note 4.7)	606,107	5	565,987	5		2,065,228	16	1,720,779	15
Other assets (Note 4.8)	7,541	-	13,898	-	Others:				
					Cumulative translation adjustments	34,041	-	73,076	1
					Net loss unrecognized as pension cost	(15,783)	-	(6,406)	-
					Unrealized gain or loss on financial instruments	454,949	4	(29,569)	-
						473,207	4	37,101	1
					Equity attributable to stockholders of the parent	8,173,642	63	7,306,127	64
					Minority interest	595,151	5	345,621	3
					Total stockholders' equity (Note 7)	8,768,793	68	7,651,748	67
					Commitments and contingencies				
Total assets	\$ 13,009,293	100	11,513,980	100	Total liabilities and shareholders' equity	\$ 13,009,293	100	11,513,980	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 Consolidated Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2009 and 2008

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

	2009		2008	
	Amount	%	Amount	%
Gross sales	\$ 13,343,996	101	14,456,515	101
Less: Sales returns and allowances	(120,925)	(1)	(160,679)	(1)
Net sales	13,223,071	100	14,295,836	100
Cost of goods sold (Note 5)	(11,133,223)	(84)	(12,384,396)	(87)
Realized gross profit	2,089,848	16	1,911,440	13
Operating expenses (Note 4.7):				
Selling and administrative	(982,776)	(7)	(1,006,414)	(7)
Research and development	(99,800)	(1)	(132,975)	(1)
	(1,082,576)	(8)	(1,139,389)	(8)
Operating income	1,007,272	8	772,051	5
Non-operating income and gains:				
Interest income	16,416	-	21,867	-
Dividend income	20,903	-	33,520	-
Gain on disposal of investments	32,408	-	52,697	-
Foreign exchange gain	-	-	98,840	1
Gain on reversal of doubtful account	20,394	-	-	-
Gain on reversal of impairment loss	36,185	-	-	-
Gain on valuation of financial assets (Note 4.2)	12,588	-	-	-
Others	114,722	1	27,565	-
	253,616	1	234,489	1
Non-operating expenses and losses:				
Interest expenses	(16,283)	-	(38,896)	-
Investment loss recognized under equity method (Note 4.5)	(5,899)	-	(6,534)	-
Loss on disposal of property, plant and equipment	(22,938)	-	(45,878)	-
Foreign exchange loss	(18,084)	-	-	-
Impairment loss, net	-	-	(60,520)	-
Loss on valuation of financial assets (Note 4.2)	-	-	(3,607)	-
Loss on valuation of financial liabilities (Note 4.2)	(34)	-	-	-
Others	(20,124)	-	(20,492)	-
	(83,362)	-	(175,927)	-
Consolidated income before income tax	1,177,526	9	830,613	6
Income tax expense (Note 4.13)	(256,489)	(2)	(177,770)	(1)
Consolidated net Income	<u>\$ 921,037</u>	<u>7</u>	<u>652,843</u>	<u>5</u>
Attributable to:				
Stockholders of the parent	\$ 849,611	6	674,497	5
Minority interest	71,426	1	(21,654)	-
	<u>\$ 921,037</u>	<u>7</u>	<u>652,843</u>	<u>5</u>
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Earnings per share (Note 4.15) (NT Dollars)				
Basic earnings per share	<u>\$ 3.61</u>	<u>2.96</u>	<u>2.91</u>	<u>2.41</u>
Basic earnings per share—retroactive			<u>\$ 2.86</u>	<u>2.36</u>
Diluted earnings per share	<u>\$ 3.55</u>	<u>2.92</u>	<u>2.83</u>	<u>2.34</u>
Diluted earnings per share—retroactive			<u>\$ 2.78</u>	<u>2.30</u>

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 Consolidated Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2009 and 2008

(Expressed in Thousands of New Taiwan Dollars)

	Retained Earnings				Others			Treasury stock	Minority interest	Total shareholders' equity
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain or loss on financial instruments			
Balance, January 1, 2008	\$ 2,703,274	2,747,093	505,526	1,499,846	6,394	-	83,013	(14,568)	3,627,710	11,158,288
Appropriations of prior year's earnings										
Legal capital reserve	-	-	118,901	(118,901)	-	-	-	-	-	-
Capitalization of stock dividends to shareholders	27,035	-	-	(27,035)	-	-	-	-	-	-
Capitalization of bonus to employees - in stock	56,500	-	-	(56,500)	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(811,055)	-	-	-	-	-	(811,055)
Bonus to employees - in cash	-	-	-	(37,500)	-	-	-	-	-	(37,500)
Bonus to directors and supervisors	-	-	-	(27,000)	-	-	-	-	-	(27,000)
Convertible bonds transferred to capital stock and capital surplus	19,647	52,653	-	-	-	-	-	-	-	72,300
Net loss not recognized as pension cost	-	-	-	-	-	(6,406)	-	-	-	(6,406)
Valuation adjustment on available-for-sale financial assets	-	-	-	-	-	-	(112,582)	-	-	(112,582)
Cumulative translation adjustments	-	-	-	-	66,682	-	-	-	-	66,682
Adjustment on long-term investments	-	(57,955)	-	-	-	-	-	-	-	(57,955)
Subsidiary trading in parent stocks	-	-	-	-	-	-	-	14,568	-	14,568
Change in minority interest	-	-	-	-	-	-	-	-	(3,260,435)	(3,260,435)
Net income for the twelve months ended December 31, 2008	-	-	-	674,497	-	-	-	-	(21,654)	652,843
Balance, 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
Appropriations of prior year's earnings										
Legal capital reserve	-	-	67,449	(67,449)	-	-	-	-	-	-
Capitalization of stock dividends to shareholders	56,129	-	-	(56,129)	-	-	-	-	-	-
Cash dividends to shareholders	-	-	-	(449,033)	-	-	-	-	-	(449,033)
Capitalization of bonus to employees - in stock	9,590	15,410	-	-	-	-	-	-	-	25,000
Net loss not recognized as pension cost	-	-	-	-	-	(9,377)	-	-	-	(9,377)
Valuation adjustment on available-for-sale financial assets	-	-	-	-	-	-	484,518	-	-	484,518
Cumulative translation adjustments	-	-	-	-	(39,035)	-	-	-	-	(39,035)
Adjustment on long-term investments	-	5,831	-	-	-	-	-	-	-	5,831
Change in minority interest	-	-	-	-	-	-	-	-	178,104	178,104
Net income for the twelve months ended December 31, 2009	-	-	-	849,611	-	-	-	-	71,426	921,037
Balance, December 31, 2009	\$ 2,872,175	2,763,032	691,876	1,373,352	34,041	(15,783)	454,949	-	595,151	8,768,793

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, 2009 and 2008

(Expressed in Thousands of New Taiwan Dollars)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Consolidated net income	\$ 921,037	652,843
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	235,097	269,223
Other expenditures - accumulated depreciation on assets leased to others	368	448
Allowance (reversal) for doubtful accounts	(20,394)	889
Loss on retirement of inventory	30,803	24,461
Unrealized inventory valuation loss (gain)	(70,235)	133,394
Loss on disposal of property, plant and equipment, net	23,055	45,878
Property, plant and equipment reclassified as expense	-	4,725
Cash dividends from investee's company accounted for using equity method	-	36,903
Investment loss accounted for using equity method, net	5,899	6,534
Gain on disposal of available-for-sale financial assets	(18,655)	(2,847)
Impairment loss	-	60,520
Gain on buyback of bonds payable	(6)	-
Deferred income tax expense (benefit)	34,094	(19,244)
Changes in assets and liabilities:		
Decrease (increase) in financial assets at fair value through profit or loss - current	(325,838)	166,809
Decrease in notes and accounts receivable	36,270	55,915
Decrease (increase) in other financial assets - current	(32,489)	16,349
Decrease (increase) in inventories	323,759	(316,203)
Decrease in prepaid expenses and other current assets	77,030	60,106
Increase in financial liabilities at fair value through profit or loss - current	34	-
Increase (decrease) in notes and accounts payable	(35,860)	190,572
Decrease in payables from related parties	(3,031)	(18,749)
Increase (decrease) in income tax payable	94,778	(102,888)
Increase in accrued expenses and other current liabilities	40,776	179,749
Decrease in accrued pension liabilities	(651)	(108)
Decrease in other liabilities	(550)	(16,611)
Net cash provided from operating activities	<u>1,315,291</u>	<u>1,428,668</u>
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	9,374	72,416
Additions to property, plant and equipment	(300,316)	(617,330)
Proceeds from sale of available-for-sale financial assets - noncurrent	58,758	13,288
Increase in long-term equity investments	(8,931)	-
Acquisition of financial assets carried at cost -noncurrent	(8,701)	(63,482)
Increase in intangible assets	(54,491)	(565,987)
Acquisition of available-for-sale financial assets - noncurrent	(24,342)	-
Decrease in other assets	1,032	32,206
Net cash used in investing activities	<u>(327,617)</u>	<u>(1,128,889)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	491,606	(128,418)
Borrowing of long-term loans	5,000	1,189,000
Repayment of long-term loans	(51,000)	(11,389)
Cash dividends	(449,033)	(811,055)
Directors' and supervisors' remuneration & employees' bonus	-	(64,500)
Buyback and cancellation of bonds payable	(126,794)	-
Decrease in minority interest	(15,820)	-
Net cash used in financing activities	<u>(146,041)</u>	<u>173,638</u>
Effect of consolidated entity changes in cash and cash equivalents	(5,998)	(1,771,353)
Effect of exchange rate changes in cash and cash equivalents	(10,791)	(9,424)
Net increase (decrease) in cash and cash in banks	824,844	(1,307,360)
Cash and cash in banks at beginning of period	1,656,369	2,963,729
Cash and cash in banks at end of period	<u>\$ 2,481,213</u>	<u>1,656,369</u>
Supplemental disclosure of cash flow information:		
Interest paid, excluding capitalization of interest	<u>\$ 16,108</u>	<u>41,087</u>
Income tax paid	<u>\$ 134,364</u>	<u>392,467</u>
Supplemental information on non-cash investing and financing activities:		
Changes in capital reserve from long-term equity investments	<u>\$ 5,831</u>	<u>(57,955)</u>
Property, plant and equipment reclassified as other assets	<u>\$ -</u>	<u>87,481</u>
Current portion of bonds payable and long-term debt	<u>\$ 125,417</u>	<u>177,800</u>
Convertible bonds converted into common stock and capital surplus	<u>\$ -</u>	<u>72,300</u>
Net loss not recognized as pension cost	<u>\$ (9,377)</u>	<u>(6,406)</u>
Unrealized gain or loss on financial instruments	<u>\$ 484,518</u>	<u>(112,582)</u>
Cash used in acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	\$ 257,221	624,031
Add: Payable at beginning of period	72,048	65,347
Less: Payable at end of period	(28,953)	(72,048)
Payment in cash	<u>\$ 300,316</u>	<u>617,330</u>

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 Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(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, 2009 and 2008, the consolidated financial statements included the accounts of the Company and its subsidiaries (hereinafter jointly referred to as the "Consolidated Companies"). The Consolidated Company, which are classified according to their primary business activity and percentage of ownership, are as follows:

- (1) Research, design, manufacturing, and sales of Multilayer Ceramic Chip Capacitors, electronic components, telecommunication equipment, data storage media units, and ESD protection circuit and module:

	Investor	Percentage of the direct and indirect ownership by the Company at December 31	
		2009	2008
The Company	-	-	-
Holy Stone Enterprise (Hong Kong) Co., Ltd. ("Holy Stone H.K", Hong Kong)	the Company	100.00	100.00
Taiwan MAHK OPT. CO., Ltd. ("Taiwan MAHK", Taiwan)	the Company	70.56	70.56
Kallax Company Ltd. ("Kallax", Taiwan)	the Company	-	67.77
MARTEK CO., LTD. ("MARTEK", Taiwan)	the Company	100.00	100.00
OHGA Electronic Co., Ltd. ("OHGA", Taiwan)	RONG JHAN	70.00	70.00
	INVESTMENT CO., LTD.		
Hec Japan Technology Co., Ltd. ("HEC", Japan)	HSH	-	100.00
Mayatek Co., Ltd. (Mayatek · Belize)	HSH	100.00	100.00
Holy Stone International Trading (Shanghai) Co., Ltd. ("Holy Stone Shanghai", China)	HSIC	100.00	100.00
	HSIC	100.00	100.00
INFORTECH (CHINA) CO., LTD. ("INFORTECH", Taiwan)	HSIC	100.00	100.00
INFORTECH International Trading (Shanghai) Ltd. ("INFORTECH International", China)	GGH	100.00	100.00
	GGH	100.00	100.00
Milestone Global Technology Ltd. ("MGT", US)	GGH	100.00	100.00
Holy Stone (Europe) Ltd. ("HSE", UK)	GGH	100.00	100.00
HE JIA ELECTRONIC (DONG GUAN) LTD. ("HPD", China)	HPC	100.00	100.00
	INFORTECH	100.00	100.00
Zierra (Wuhan) Electronic Tech Co., Ltd. (Zierra, China)	INFORTECH	100.00	100.00

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Investment and holding companies:

	Investor	Percentage of the direct and indirect ownership by the Company at December 31	
		2009	2008
1.Holy Stone Holdings Co., Ltd. (“HSH”, Niue)	the Company	100.00	100.00
2.UHOLY INVESTMENT CO., LTD (“UHOLY”, Taiwan)	the Company	57.69	57.69
3.RONG JUAN INVESTMENT CO., LTD. (“RONG JUAN”, Taiwan)	the Company	100.00	100.00
4.Green Glory Holdings Ltd. (“GGH”, Samoa)	HSH	100.00	100.00
5.Holy PAQ Corporation (“HPC”, Cayman Islands)	HSH	100.00	100.00
6.Holy Stone Investments Co., Ltd. (“HSIC”, Hong Kong)	HSH	100.00	100.00
7.Global Search Holdings Ltd. (“GSH”, Samoa)	Holy Stone Healthcare	100.00	100.00

(3) Wholesale of drugs, medical goods

	Investor	Percentage of the direct and indirect ownership by the Company at December 31	
		2009	2008
1.Holy Stone Healthcare Co., Ltd. (“Holy Stone Healthcare”, Taiwan)	UHOLY	28.63	28.63
2.MDT INT’L SA (“MDT”, Switzerland)	Holy Stone Healthcare	14.31	14.31

In 2009, the Company disposed the ownership of Kallax, and the Consolidated Companies excluded Kallax since November 2009.

In 2009, HEC made liquidation, and the Consolidated Companies excluded HEC since April 2009.

As of December 2009 and 2008, the Consolidated Companies had 1,157 and 1,172 employees, respectively.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C. Significant accounting policies are summarized as follows:

(1) Consolidated policies

The consolidated financial statements include the accounts of the Company and subsidiaries in which the Company is able to exercise control over the subsidiary’s operation and financial policy. The operation activity of the subsidiary is included in the consolidated financial statements of income from the date of acquisition. All significant inter-company transactions among the Consolidated Companies are eliminated in consolidation.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The difference between the net purchase price and the net equity of the acquired subsidiary is accounted for as goodwill or negative goodwill (classified under “intangible assets” and “other liabilities” in the accompanying consolidated balance sheet.)

(2) Use of Estimates

The preparation of assets, liabilities, income, losses, and contingencies on the consolidated 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.

(3) Foreign-currency Transactions and Foreign Statement Conversion

The functional and reporting currency of consolidated entities is domestic dollars. Non-derivative foreign currency transactions are recorded the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting unrealized exchange gain (loss) from such translation is reflected in the accompanying consolidated statements of income. 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.

The Consolidated Company'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.

(4) 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.

(5) Impairment of Assets

The Consolidated 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.

Goodwill, intangible assets with indefinite useful life, and not-in-use intangible assets are subject to impairment test annually, and an impairment loss is recognized on the excess of carrying value over the recoverable income.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Financial Instruments

The Consolidated Companies use 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 the Consolidated Companies are classified as the following categories by its purpose after the recognition:

1. Financial Assets/Liabilities at Fair Value through Profit or Loss: Financial instruments for the trading purpose of short-term sales and repurchase. Derivatives held by the Consolidated Companies should be classified as this category except those assigned and valid hedging instruments. Recognized at fair value, and any profit or loss should be recognized on the income statement.
2. Available-for-sale Financial Assets: Recognized at fair value, and changes in fair value from subsequent revaluation, except impairment loss and foreign exchange loss on monetary assets, 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 previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease 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 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. Other Financial Assets/Liabilities: Carried at amortized cost calculated under effective interest rate, which is also used to calculate interest income/expense. 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.

The Consolidated Companies use 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.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) 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.

(8) Inventories

Prior to December 31, 2008, inventories were stated at the lower of cost or fair value. Cost was determined using the weighted-average method. Market value represented replacement cost for raw materials and supplies and net realizable value for work in process and finished goods.

Effective from January 1, 2009, the Company adopted the amended ROC SFAS No. 10 "Inventories". Cost of merchandise amounts to expenditure that is essential to make inventories to achieve the status of available-for-sales and sales location. Inventories are stated at the lower of cost or net realizable value. Cost is calculated through weighed average method, and net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Finished goods, semi-finished goods, work-in-process, raw materials, and supplies are stated at the lower of cost or net realizable value, in which cost is calculated through standard cost method and net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Difference between standard cost and actual cost is amortized by percentage to ending inventory, while extraordinary loss is recognized as cost when happened.

(9) Long-term equity investments

Investments in companies wherein the Consolidated Companies hold directly or indirectly 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.

Starting from January 1, 2006, differences between investment cost and investee's net equity determined at fair value are accounted for as goodwill. If the cause of the difference is attributable to specific transaction, the balance after eight-year amortization is no longer amortized since January 1, 2006.

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.

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.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

If the Consolidated Companies 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 Consolidated Companies subscribe 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 Consolidated Company's share of the investee's equity. The Consolidated Companies record 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.

(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 Consolidated Companies 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.

(11) Intangible assets

Goodwill is the main intangible asset. In accordance with SFAS No. 37 "Intangible Assets", other than that acquired by way of government grant, which is measured at its fair value, an intangible asset is measured initially at cost. After the initial recognition, is measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The depreciable amount is determined after deducting its residual value. Amortization is recognized on a straight-line basis over the estimated useful lives of intangible assets from the date when they are made available for use.

Goodwill has not been amortized from January 1, 2006, and is conducted impairment test annually.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Any change thereon are accounted for as changes in accounting estimates.

In accordance with SFAS No. 37, except when it forms part of the cost of a business combination, expenditure on research is recognized as an expense when it is incurred.

An intangible asset arising from development is recognized if, and only if, the Consolidated Companies can demonstrate all of the following criteria, or will be recognized as expenses:

- i. the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- ii. their intention to complete the intangible asset and use or sell it.
- iii. their ability to use or sell the intangible asset.
- iv. how the intangible asset will generate probable future economic benefit.
- v. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- vi. their ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost less accumulated impairment losses.

In accordance with SFAS No. 37, an intangible asset with an indefinite useful life is not amortized.

The useful life of capitalized development expenditure that is not being amortized is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for as a change in accounting estimate.

The consolidated Companies currently cannot separate the research stage and development stage for their R&D projects; therefore, all R&D expenditures are treated as incurred at the research stage.

(12) 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.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under SFAS No.36 “Financial Instruments: Disclosure and Presentation”, the Company recognizes separately the components of a compound financial instrument that creates a financial liability of the Company and grants an option to the holder of the instrument to convert it into an equity of the Company. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds. The Company first determines the carrying value of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying value of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of financial liability from the fair value of the compound financial instrument as a whole. Interest expenses are calculated according to effective interest method, amortize based on the contract term, and recognize in the statement of income

(13) Pension Cost

In 1984, the Consolidated Companies 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 Consolidated Companies contribute 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 Consolidated Companies has the “pension fund monitoring committee”, which is responsible for pension fund administration. The Consolidated Companies contribute pension fund every month, and deposits in the pension fund account in the Central Trust of China.

The Consolidated Companies adopting the Defined Benefit Plan finish 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. For the Consolidated Companies adopting the Defined Contribution Plan, an employer contributes monthly to an individual labor pension fund account at the rate of not be lower than 6% of the worker’s monthly wages in accordance with the New Act. Always complying with the New Act for those are not regulated.

The Company’s foreign subsidiaries have, in accordance with their domestic laws, contributed a certain rate of wage monthly as pension, deposited in the employees’ accounts in the trust institution, and recognized the actual contribution as pension cost. Besides, there is no other pension obligation.

(14) 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.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO CONSOLIDATED 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.

(15) Revenue Recognition

The Consolidated Companies recognize revenue when the rewards of ownership and significant risk of the goods has been transferred to the buyer.

(16) Income Tax

The Consolidated Companies recognize 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.

3. Accounting Change

- (1) Effective January 1, 2009, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 10, "Accounting for Inventories." According to the 21st paragraph, inventories are stated at the lower of cost or net realizable value. Such changes in accounting principle did not have significant effect on the Company's net income and earnings per share for the year ended December 31, 2009.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) 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.

4. Accounts Statement

4.1 Cash and Cash Equivalents

Details:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Cash on hand	\$ 2,558	11,692
Current deposit	2,095,255	1,219,958
Checking account	26,380	8,713
Deposit account	256,846	186,006
Cash equivalents-repurchase bonds	<u>100,174</u>	<u>230,000</u>
	<u>\$ 2,481,213</u>	<u>1,656,369</u>

4.2 Financial Instrument

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

	<u>12.31.2009</u>	<u>12.31.2008</u>
Foreign stocks	\$ 43,005	2,997
Bonds	457,189	184,922
Open-ended funds	194,863	184,024
Foreign exchange swap contracts	6,921	3,674
Foreign currency forward contracts	<u>467</u>	<u>990</u>
Total	<u>\$ 702,445</u>	<u>376,607</u>

Financial assets at fair value through profit or loss - current

Foreign currency forward contracts	<u>\$ 34</u>	<u>-</u>
------------------------------------	---------------------	-----------------

For the years ended December 31, 2009 and 2008, changes in fair value related to derivative financial instruments recognized in earnings was a net gain of NT\$12,554 thousand and a net loss of NT\$3,607 thousand, respectively.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Consolidated Companies entered into derivatives transactions to hedge foreign currency exchange risk and interest risk exposure. As of December 31, 2009 and 2008, details of derivatives not applied to hedging accounting were as follows:

(1) Foreign exchange swap contracts

12.31.2009		12.31.2008	
Principal(USD)	Term	Principal(USD)	Term
\$ 890,000	98.12.22~99.01.05	6,860,000	97.12.30~98.01.06
340,000	98.12.22~99.01.05	6,850,000	97.12.30~98.01.06
5,400,000	98.12.22~99.01.05	-	
8,740,000	98.12.22~99.01.05	-	
2,500,000	98.12.22~99.01.05	-	
450,000	98.12.22~99.01.05	-	
5,400,000	98.12.22~99.01.05	-	
1,800,000	98.12.22~99.01.05	-	
650,000	98.12.22~99.01.05	-	
2,900,000	98.12.22~99.01.05	-	
2,200,000	98.12.22~99.01.05	-	
<u>3,200,000</u>	98.12.22~99.01.05	-	
<u>\$ 34,470,000</u>		<u>13,710,000</u>	

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

(2) Foreign currency forward contracts

	12.31.2009		
	Notional Principal	Currency	Expiry Date
Sales of foreign currency forward contracts	USD 1,000	USD to NTD	11.20.2009~01.25.2010
Sales of foreign currency forward contracts	USD 1,000	USD to NTD	12.07.09~02.09.2010
Sales of foreign currency forward contracts	USD 500	USD to NTD	11.20.2009~02.08.2010
Sales of foreign currency forward contracts	USD 1,000	USD to NTD	10.01.2009~01.08.2010
Sales of foreign currency forward contracts	USD 500	USD to NTD	10.01.2009~01.27.2010
Sales of foreign currency forward contracts	USD 500	USD to NTD	10.19.2009~01.15.2010
Sales of foreign currency forward contracts	USD 500	USD to NTD	10.19.2009~02.16.2010
Sales of foreign currency forward contracts	USD 500	USD to NTD	10.19.2009~03.18.2010
Sales of foreign currency forward contracts	USD 500	USD to NTD	10.19.2009~04.16.2010
Sales of foreign currency forward contracts	USD 500	USD to NTD	12.07.2009~01.14.2010
Sales of foreign currency forward contracts	USD <u>500</u>	USD to NTD	12.07.2009~05.10.2010
Total	<u>USD 7,000</u>		

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	12.31.2008		
	Notional Principal	Currency	Expiry Date
Purchase of foreign currency forward contracts	JPY <u>30,000</u>	YEN to NTD	11.10.2008~01.23.2009

4.2.2 Available-for-sale financial assets - noncurrent

	12.31.2009	12.31.2008
GSI TECHNOLOGY INC. (GSIT)	\$ 193,657	125,430
eGalax_eMPIA Technology Inc. (EETI)	577,903	143,402
INPAQ Technology Co., Ltd. (INPAQ)	294,183	113,165
Total	\$ 1,065,743	381,997

4.2.3 Financial assets carried at cost - noncurrent

	12.31.2009	12.31.2008
Preferred stock – China Trust Commercial Bank	\$ 300,000	300,000
Private stock – C2 Microsystems Inc.	29,809	29,809
Private stock –	89,000	89,000
Private stock –	11,328	2,627
Private stock –	19,757	19,757
Private stock –	59,000	59,000
Total	\$ 508,894	500,193

4.3 Notes and Accounts Receivable

Details:

	12.31.2009	12.31.2008
Notes receivable	\$ 150,473	156,970
Accounts receivable	3,118,859	3,150,560
Allowance for collectible accounts	(69,804)	(85,567)
	\$ 3,199,528	3,221,963

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.4 Inventories

Details:

	2009.12.31	2008.12.31
Raw materials	\$ 230,874	234,447
Less: Allowance	(3,601)	(15,446)
Subtotal	227,273	219,001
Supplies	3,153	3,118
Less: Allowance	(27)	(30)
Subtotal	3,126	3,088
Work in process	119,891	113,267
Less: Allowance	(2,780)	(2,718)
Subtotal	117,111	110,549
Semi-finished goods	95,248	95,534
Less: Allowance	(7,769)	(5,628)
Subtotal	87,479	89,906
Finished goods	302,871	372,789
Less: Allowance	(23,095)	(65,260)
Subtotal	279,776	307,529
Merchandise	1,091,273	1,383,772
Less: Allowance	(125,975)	(146,532)
Subtotal	965,298	1,237,240
Total	\$ 1,680,063	1,967,313

For the years ended December 31, 2009 and 2008, the Consolidated Companies recognized related losses on inventories of (NT\$43,857) thousand and NT\$157,236 thousand, respectively, which included losses on inventories charged to cost of sales of NT\$70,235 thousand from the writedown of book value of inventories from cost to net realizable value and gains on inventories of NT\$133,394 thousand from the writeup of net realizable value, respectively.

4.5 Long-term Equity Investments

Details:

	12.31.2009		
Investee Company	% of Ownership	Investment Cost	Carrying Amount
Valuation at equity:			
Holygene Corporation	29.79%	\$ 41,904	3,786
		12.31.2008	
Investee Company	% of Ownership	Investment Cost	Carrying Amount
Valuation at equity:			
Holygene Corporation	33.20%	\$ 32,973	-

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Consolidated Companies increased long-term equity investments of NT\$8,931 thousand in 2009; however, our percentage of ownership decreased from 33.20% to 29.79% without the participation in proportional cash capital increase. The Consolidated Companies recognized losses on long-term equity investments of NT\$5,899 thousand and NT\$6,534 thousand, respectively.

4.6 Property, plant and equipment

1. Property, plant and equipment provided by the Consolidated Companies as collaterals for bank loans, please refer to Notes 6.
2. Details on assets leased to others of the Consolidated Companies as of December 31, 2009 and 2008 are summarized as follows:

	12.31.2009	12.31.2008
Assets leased to others-land	\$ 28,819	48,215
Assets leased to others-building	18,750	22,856
Subtotal	47,569	71,071
Accumulated depreciation	(4,136)	(4,399)
	\$ 43,433	66,672

4.7 Intangible assets

	Goodwill	Others	Total
Original cost:			
Balance at December 31, 2007	\$ -	-	-
Acquisition	565,915	72	565,987
Balance at December 31, 2008	\$ 565,915	72	565,987
Additions	-	54,491	54,491
Foreign currency translation	(8,335)	(108)	(8,443)
Balance at December 31, 2009	\$ 557,580	54,455	612,035
Accumulated translation:			
Balance at December 31, 2007	\$ -	-	-
Amortization	-	-	-
Balance at December 31, 2008	\$ -	-	-
Amortization	-	5,928	5,928
Balance at December 31, 2009	\$ -	5,928	5,928
Book value:			
Balance at December 31, 2007	\$ -	-	-
Balance at December 31, 2008	\$ 565,915	72	565,987
Balance at December 31, 2009	\$ 557,580	48,527	606,107

For the years ended December 31, 2009 and 2008, amortization expense of intangible assets was NT\$5,928 thousand and NT\$0 thousand, respectively.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.8 Idle Assets

Details on idle assets of the Consolidated Company as of December 31, 2009 and 2008 are summarized as follows:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Machinery and equipment	\$ 61,238	103,110
Other equipment	<u>7,696</u>	<u>16,791</u>
Subtotal	68,934	119,901
Less: Accumulated depreciation	(7,854)	(37,863)
Accumulated impairment	<u>(61,080)</u>	<u>(82,038)</u>
Total	<u>\$ -</u>	<u>-</u>

4.9 Short-term Loans

Details:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Purchases loans	<u>\$ 1,148,575</u>	<u>656,969</u>
Interest rate	<u>0.6265%~3.00%</u>	<u>1.40%~3.80%</u>

As of December 31, 2009 and 2008, the Consolidated Company's credit lines on short-term loans which have not been used from financial institutions were NT\$2,617,348 thousand and NT\$2,118,657 thousand, and the Consolidated Company does not have to pay any committee fees for these credit lines.

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

4.10 Long-term Liabilities

Details:

<u>Creditor</u>	<u>Line of Credit and Key Terms</u>	<u>12.31.2009</u>	<u>12.31.2008</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	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	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	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	300,000
CTCB, Tunpei Branch	The borrowing amount is NT\$300,000 thousand. With interest paid monthly from June 2009 to June 2012, and principal paid semi-annually based on the average amortization method since the second year, meaning a one-year deferred period of principal payment.	5,000	-
	Subtotal	1,142,250	1,188,250
	Less: Current portion	(125,417)	(51,000)
		<u>\$ 1,016,833</u>	<u>1,137,250</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Each long-term loan of the Consolidated Companies is unsecured loan.
2. The aforementioned interests are paid in floating interest rate, with an approximation of 0.910 percent to 2.673 percent and 1.660 percent to 2.673 percent in 2009 and 2008, respectively.
3. As of December 31, 2009 and 2008, long-term loans not be used by the Consolidated Companies totaled NT\$907,750 thousand and NT\$861,750 thousand, respectively.
4. As of December 31, 2009, the loan balance should be paid as follows:

Period	Amount
01.01.2010~12.31.2010	\$ 125,417
01.01.2011~12.31.2011	441,833
01.01.2012~12.31.2012	366,583
01.01.2013~12.31.2013	208,417
	\$ 1,142,250

4.11 Bonds Payable

Details:

	12.31.2009	12.31.2008
Domestic unsecured bond 2	\$ -	126,800
Corporate bonds due in one year	-	(126,800)
	\$ -	-

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.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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, certain bondholders exercised their rights to convert bonds into 1,964,670 shares in common stock with the principal amount of NT\$72,300 thousand. 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. In 2009, the Company purchased and cancelled corporate bond payable of NT\$126,800 thousand for NT\$126,794 thousand in the open market.

4.12 Pension Plan

1. The following tables set forth the benefit obligation and net retirement plan assets related to the Consolidated Companies' defined benefit pension plan:

(1) Reconciliation of funded status of the plan and accrued pension cost at December 31, 2009 and 2008.

	<u>12.31.2009</u>	<u>12.31.2008</u>
Benefit obligation:		
Vested benefit obligation	\$ (7,823)	(5,841)
Nonvested benefit obligation	(88,866)	(77,948)
Accumulated benefit obligation	(96,689)	(83,789)
Additional benefits based on future salaries	(17,435)	(10,637)
Projected benefit obligation	(114,124)	(94,426)
Fair value of plan assets	75,223	71,048
Funded status	(38,901)	(23,378)
Unrecognized net transition obligation	33,218	17,044
Unrecognized net loss	(15,783)	(6,406)
Accrued pension cost	<u>\$ (21,466)</u>	<u>(12,740)</u>

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

	<u>2009</u>	<u>2008</u>
Service cost	\$ 1,996	2,234
Interest cost	2,125	3,496
Actual return on plan assets	(1,599)	(2,452)
Unamortized pension	507	789
Net periodic pension cost	<u>\$ 3,029</u>	<u>4,067</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Actuarial assumptions are as follows:

	<u>2009</u>	<u>2008</u>
Discount rate used in determining present values	2.25%	2.25%
Salary adjustment rate	1.50%	1.00%
Expected rate of return on plan assets	2.25%	2.25%

2. The domestic subsidiaries adopting the Defined Contribution Pension Plan among the Consolidated Companies:

In 2009 and 2008, pension cost under the Defined Contribution Pension Plan was NT\$22,044 thousand and NT\$25,831 thousand, respectively.

3. In 2009 and 2008, pension cost was NT\$3,519 thousand and NT\$284 thousand, respectively, for the foreign subsidiaries complying their bureau's regulation

4.13 Income Tax

1. Each consolidated entity files its own separate income tax return.

2. The components of income tax for the years ended December 31, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Current income tax expense	\$ 222,395	197,014
Deferred income tax expense (benefit)	34,094	(19,244)
Income tax expense	<u>\$ 256,489</u>	<u>177,770</u>

3. Currently, the domestic consolidated entities are subject to ROC income tax at a maximum of 25%. According to the new announcement of revised ROC Income Tax Act on May 27, 2009, this income tax is reduced to 20% commencing from 2010. The components of deferred income tax expense (benefit) for the years ended December 31, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Estimated income tax expense calculated based on financial income before income tax at statutory tax rate of 25%	\$ 356,192	225,039
Gain on disposal of marketable securities	(3,667)	(16,273)
Released investment loss	-	(18,956)
Prior-period tax adjustment	16,410	5,441
Change in valuation allowance for deferred income tax assets	(41,477)	2,610
Effect of change in income tax rate	17,917	-
Tax-exempt income and investment tax credits	(71,590)	(65,775)
10% surtax on undistributed earnings	15,057	14,418
Others	(32,353)	31,266
	<u>\$ 256,489</u>	<u>177,770</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. The components of deferred income tax assets as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Deferred income tax assets—current:		
Provision for inventory obsolescence	\$ 29,127	62,633
Provision for bad debt in excess	5,485	20,595
Unrealized gain or loss on foreign exchange, net	3,384	(14,086)
Others	69	(577)
Less: valuation allowance	<u>(598)</u>	<u>(23,701)</u>
Net deferred income tax assets—current	<u>\$ 37,467</u>	<u>44,864</u>
Deferred income tax assets—noncurrent:		
Unrealized loss on investment, net	\$ 8,728	49,248
Loss carryforwards	34,622	40,617
Others	16,683	28,824
Less: valuation allowance	<u>(58,141)</u>	<u>(118,689)</u>
Net deferred income tax assets—noncurrent	<u>1,892</u>	<u>-</u>
Deferred income tax liabilities—noncurrent:		
Long-term investment income under equity method	(24,022)	-
Cumulated translation adjustments	<u>(8,510)</u>	<u>-</u>
	<u>(32,532)</u>	<u>-</u>
Net deferred income tax liabilities—noncurrent	<u>\$ (30,640)</u>	<u>-</u>

The abovementioned net deferred income tax assets—current is recognized as for prepaid expenses and other current assets.

5. The tax authorities have examined income tax returns of the Company through 2007.

6. Imputation credit account (ICA) and creditable ratio:

	<u>12.31.2009</u>	<u>12.31.2008</u>
Unappropriated earnings before 1997	\$ 1,848	1,848
Unappropriated earnings after 1998	<u>1,371,504</u>	<u>1,094,504</u>
	<u>\$ 1,373,352</u>	<u>1,096,352</u>
Imputation credit account (ICA) balance	<u>\$ 159,234</u>	<u>252,034</u>
	<u>2009 (Expected)</u>	<u>2008 (Actual)</u>
Actual /estimated creditable ratio for earnings distribution	<u>19.11%</u>	<u>25.39%</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.14 Stockholders' Equity

1. Common Stock and Stock Issuances

On June 11, 2008, the Company's shareholders approved a resolution to increase capital of NT\$83,535 thousand, including employees' bonus of NT\$56,500 thousand), from retained earnings. The record date for stock issuance was August 12, 2008. The stock issuance was authorized by and registered with government authorities.

Par value of NT\$72,300 thousand of the Company's convertible bond has been converted into common stock of NT\$19,647 thousand, with the paid-in-capital in excess of par value of NT\$52,653 thousand.

On June 16, 2009, the Company's shareholders approved a resolution to distribute a stock dividend of NT\$56,129 thousand and a stock dividend as employees' bonus of NT\$25,000 thousand, amounted to 6,572 thousand shares (including 959 thousand shares as employees' bonus), through capital increase. The record date for stock issuance was August 26, 2009. The stock issuance was authorized by and registered with government authorities.

As of December 31, 2009 and 2008, the Company's authorized common stock consisted of NT\$4,500,000 thousand, with par value of NT\$10 per share, of which NT\$2,872,175 and NT\$2,806,456, respectively, were issued as capital.

2. Treasury Stock

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

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>314</u>	<u>-</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.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Capital Surplus

According to the ROC Company Act, realized capital surplus could only be transferred to common stock after deducting the accumulated deficit, if any, and cannot be applied to cash dividend payment. Realized capital surplus stated above included premium from issuing stock and donated assets received. As of December 31, 2009 and 2008, the components of capital surplus were as follows:

	<u>12.31.2009</u>	<u>12.31.2008</u>
From cash capital increase	\$ 945,386	945,386
From convertible bonds	1,463,082	1,463,082
From treasury stock	424	424
From Merger	144,225	144,225
From employees stock option	163,547	163,547
From employees' bonus	15,410	-
From long-term equity investment	30,958	25,127
	<u>\$ 2,763,032</u>	<u>2,741,791</u>

4. Legal Reserve

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

For the years ended December 31, 2009 and 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. On March 30, 2009, the Board of Directors approved a resolution to revise the employees' bonus rate to 16%, considering the operating forecast of 2009 and allocation status of the past year. In 2009 and 2008, bonus to employees was NT\$119,005 thousand and NT\$49,383 thousand, respectively, and remuneration to

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

directors and supervisors was NT\$22,313 thousand and NT\$14,951 thousand, respectively. If employees' bonus is 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 the income of 2010 and 2009, respectively.

The appropriation of 2009 and 2008 earnings was approved at the shareholders' meetings on June 16, 2009, and June 11, 2008, respectively as follows:

	2008	2007
Stock dividends to employees as bonus	\$ 25,000	56,500
Employee bonuses-cash	25,500	37,500
Directors' and supervisors' remuneration	15,100	27,000
	\$ 65,600	121,000

The appropriation of earnings differed from the resolutions approved by the Company's board of directors in NT\$811 thousand, recognized as changes in accounting estimate and reported on the income statement of 2009. The difference was caused because of needs of future business development, production equipment expansion, and operating funds adjustment.

Appropriation of employees' bonus and directors' and supervisors' emoluments, kept for the approval of the Company's board of directors and the resolution of shareholders' meeting, and the related information can be obtained on the public information website.

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 interests 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 than 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, 2009 (NTD)	Issuing Way
2006 1 st ESO Plan	07.10.2006	1	5,000,000	08.21.2006	1,500,000	\$ 49.3	36.80	In turn
"		-	-	06.15.2007	3,500,000	58.5	45.00	"
2007 1 st ESO Plan	11.11.2007	1	10,000,000	12.03.2007	10,000,000	50.0	41.40	At a time

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

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

As of December 31, 2009, details of vested options of ESO Plans were as follows:

ESO Plans	Units Granted Issued	Units Actually Issued	Units Converted	Units Before Converted	Duration
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 15,000,000 units, totaled 15,000,000 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, 2009 and 2008 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\$94,853 thousand and NT\$117,266 thousand in 2009 and 2008, 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>
Units issued	10,000,000	3,500,000	1,500,000
Dividend yield	-	%	5.71%
Expected volatility	23.75%	14.53%	23.73%
Risk-free interest rate	2.25%	2.37%	1.77%
Expected continuing period	10 years	6 years	6 years
Fair value per unit (NTD)	NT\$18.755	NT\$12.196	NT\$5.120

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Stock Option	2009		2008	
	Unit (in thousands)	Weighted-average exercise price (NT\$)	Unit (in thousands)	Weighted-average exercise price (NT\$)
Outstanding balance at the beginning of period	16,049	\$ 43.11	16,049	\$ 49.08
Option granted	-	-	-	-
Options exercised	-	-	-	-
Option expired	(1,049)	-	-	-
Outstanding balance at the end	<u>15,000</u>	41.78	<u>16,049</u>	43.11
Exercisable number at the end	<u>4,375</u>	41.66	<u>1,799</u>	28.05

C. As of December 31, 2009, details of outstanding options of the ESO plans were as follows:

Exercise price (NT\$)	Outstanding stock options as of Dec. 31, 2009			Vested options	
	Units	Remaining vesting period	Exercise price (NT\$)	Units as of 12.31.2009	Exercise price (NT\$)
\$ 36.80	1,500,000	2.64	\$ 36.80	1,125,000	\$ 36.80
45.00	3,500,000	3.45	45.00	1,750,000	45.00
41.40	10,000,000	7.93	41.40	1,500,000	41.40

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:

		2009	2008
Net income	Net income as reported	\$ 849,611	674,497
	Pro forma net income	778,471	586,548
Basic earnings per share (NT Dollars)	Basic EPS as reported	2.96	2.36
	Pro forma basic EPS	2.71	2.06

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.15 Earnings per Share

The Consolidated Companies' basic earnings per share and diluted earnings per share of 2009 and 2008 were computed as follows:

	2009		2008	
	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
Basic EPS				
Net income	<u>\$ 1,035,053</u>	<u>849,611</u>	<u>814,344</u>	<u>674,497</u>
Weighted average number of shares outstanding (in thousand)	<u>286,781</u>	<u>286,781</u>	<u>279,608</u>	<u>279,608</u>
Basic EPS (NT Dollars)	<u>\$ 3.61</u>	<u>2.96</u>	<u>2.91</u>	<u>2.41</u>
Basic EPS-retroactive				
Net income			<u>\$ 814,344</u>	<u>674,497</u>
Weighted average number of shares outstanding (in thousand)			<u>285,200</u>	<u>285,200</u>
Basic EPS- retroactive (NT Dollars)			<u>\$ 2.86</u>	<u>2.36</u>
Diluted EPS				
Net income	<u>\$ 1,035,053</u>	<u>849,611</u>	<u>814,344</u>	<u>674,497</u>
Weighted average number of shares outstanding (in thousand)	286,781	286,781	279,608	279,608
Effect of dilutive potential common stock				
Expensing employee bonus	3,412	3,412	2,746	2,746
Employee stock options	-	-	448	448
Domestic convertible bond	<u>1,042</u>	<u>1,042</u>	<u>4,865</u>	<u>4,865</u>
Diluted EPS- weighted average number of shares outstanding (in thousand)	<u>291,235</u>	<u>291,235</u>	<u>287,667</u>	<u>287,667</u>
Diluted EPS (NT Dollars)	<u>\$ 3.55</u>	<u>2.92</u>	<u>2.83</u>	<u>2.34</u>
Diluted EPS-retroactive				
Diluted EPS-net income			<u>\$ 814,344</u>	<u>674,497</u>
Weighted average number of shares outstanding (in thousand)			285,200	285,200
Effect of dilutive potential common stock				
Expensing employee bonus			2,801	2,801
Employee stock options			457	457
Domestic convertible bond			<u>4,962</u>	<u>4,962</u>
Diluted EPS- weighted average number of shares outstanding (in thousand)			<u>293,420</u>	<u>293,420</u>
Diluted EPS-retroactive (NT Dollars)			<u>\$ 2.78</u>	<u>2.30</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.16 Additional Disclosure on Financial Instruments

1. Fair value information

As of December 31, 2009 and 2008, the fair value of the Consolidated Companies' financial assets and liabilities was as follows:

	12.31.2009		12.31.2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 1,616,573	1,616,573	1,107,952	1,107,952
Notes and accounts receivable (including related parties)	2,938,463	2,938,463	2,944,974	2,944,974
Financial assets at fair value through profit or loss-current:	467,968	467,968	229,612	229,967
Available-for-sale financial assets - noncurrent	342,242	342,242	185,495	185,495
Financial assets carried at cost - noncurrent	300,000	Note	300,000	Note
Financial liabilities:				
Short-term loans	885,258	885,258	656,469	656,469
Notes and accounts payable (including related parties)	1,052,399	1,052,399	1,038,063	1,038,063
Bonds payable (current portion)	-	-	126,800	124,264
Long-term borrowing (including current portion)	1,142,250	1,142,250	1,188,250	1,188,250

Remarks: Preferred stock with annual dividend of 3.5%. The fair value of non-publicly traded stocks is unavailable since there is no active market transaction.

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.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. The fair value of the Consolidated Companies' financial assets and liabilities determined by publicly quoted market price, if available, or determined using a valuation technique were as follows:

	12.31.2009		12.31.2008	
	Publicly quoted market prices	Fair value based on valuation technique	Publicly quoted market prices	Fair value based on valuation technique
Financial assets:				
Cash and cash equivalents	\$ -	1,616,573	-	1,107,952
Notes and accounts receivable (including related parties)	-	2,938,463	-	2,944,974
Financial assets at fair value through profit or loss-current:	460,893	7,075	224,948	5,019
Available-for-sale financial assets - noncurrent	342,242	-	185,495	-
Financial liabilities:				
Short-term loans	-	885,258	-	656,469
Notes and accounts payable (including related parties)	-	1,052,399	-	1,038,063
Bonds payable (current portion)	-	-	124,264	-
Long-term borrowing (including current portion)	-	1,142,250	-	1,188,250

4. Information about financial risks

(1) Market risk

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

(3) Liquidity risk

The Consolidated Companies have sufficient working capital to meet contractual obligations. Therefore, management believes that there is no significant liquidity risk.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Consolidated Companies' short-term and long-term borrowings are floating-interest-rate borrowings. As a result, the Consolidated Companies are exposed to fluctuation in interest rates that affect cash flows for interest payments on these borrowings. If the market interest rates on the Consolidated Companies' floating interest rate borrowings had been 1% higher with all other variables held constant, the interest expense would have been NT\$22,908 thousand different.

5. Related-party Transactions

5.1 Name and Relationship

<u>Name of related party</u>	<u>Relationship with the Consolidated Companies</u>
TAIWAN ALPHA SYSTEM CO. ("ALPHA")	Investee recognized under equity method of the Consolidated Company (Liquidated in November 2008)
eGalax_eMPIA Technology Inc. ("EETI")	The Company holds directorship

5.2 Significant Transactions with Related Parties

Significant transactions with related parties in 2009 and 2008, and the transaction remainders as of December 31, 2009 and 2008 were as follows:

1. Purchases

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>% of net purchases</u>	<u>Amount</u>	<u>% of net purchases</u>
EETI	<u>\$ 114,933</u>	<u>1.30</u>	<u>105,353</u>	<u>0.99</u>

Purchase price of the Consolidated Companies from related parties has no significant difference with general customers. The payment terms with general customers and related parties were month-end 30 to 150 days and month-end 30 days, respectively.

2. The remainders of notes and accounts payable

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

	<u>12.31.2009</u>		<u>12.31.2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Notes and accounts payable:				
EETI	<u>\$ 15,548</u>	<u>1.25</u>	<u>18,579</u>	<u>1.45</u>

3. Property transaction

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 recognized as construction in progress and prepayments for equipment or machinery and equipment. As of December 31, 2008, the payment had been paid.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.3 Main Managers' Remuneration

Details on remuneration paid to directors, supervisors, president, and vice presidents in 2009 and 2008 were summarized as follows:

	<u>2009</u>	<u>2008</u>
Salaries	\$ 52,264	34,321
Cash awards and special allowances	2,010	1,679
Expense of execution	920	600
Employees' bonus	37,000	7,000

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.

6. Pledged Assets

As of December 31, 2009 and 2008, 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>12.31.2009</u>	<u>12.31.2008</u>
Time deposits (recognized as the other financial assets-current)	Line of credit and secured by customs service	\$ 110,661	37,992
Land	Short-term loans	75,891	75,891
Buildings	"	6,734	7,047
Total		<u>\$ 193,286</u>	<u>120,930</u>

7. Commitments and Contingencies

1. The outstanding letters of credit. As of December 31, 2009 and 2008, the Consolidated Companies' outstanding letters of credit, which facilitate the Consolidated Companies' purchase of materials, amounted to NT\$112,719 thousand and NT\$79,437 thousand, respectively.
2. As of December 31, 2009 and 2008, the Consolidated Companies had provided promissory notes amounted to NT\$20,000 as collateral for purchase.

8. Significant Disaster Loss: None.

9. Significant Subsequent Events: None.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Others

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

Characters	Functions	2009			2008		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personal Costs							
Payroll		226,268	610,952	837,220	232,362	612,238	844,600
Labor and health i		23,664	23,249	46,913	20,507	26,038	46,545
Pension expense		12,502	16,088	28,590	13,831	16,316	30,147
Other (Note)		8,719	9,776	18,495	12,933	14,715	27,648
Depreciation		191,647	35,542	227,189	205,831	56,541	262,372
Amortization		254	7,654	7,908	1,339	5,512	6,851

Note: Including meal expenses and training expenses.

10.2 Reclassification

Figures of 2008 consolidated financial statements were reclassified properly in order to match those of 2009 consolidated financial statements.

11. Additional Disclosures

11.1 Significant Transaction Information

In 2009, the additional disclosures required by the Regulations Governing the Preparation of Financial Report were as follows:

1. Financing to related parties:

No.	Lender	Borrower	Subject	Maximum balance	Lending balance (note 2)	Interest rate	Character	Transaction amount	Necessity of short-term financing	Allowance for doubtful accounts	Collateral		Limitations to individual borrower (note 1)	Total limitations (note 1)
											Item	Value		
0	The Company	Holy Stone Holding Co., Ltd.	Other receivables	116,479	116,479	1.80%	Necessity of short-term financing	-	Operation turnover	-	-	-	1,307,783	3,269,457

Note 1: Quota of financing to related parties for Single Enterprise was 40% of the highest limitation of financing to related parties, which is 40% of the net equity.

Note 2: Have been eliminated as filing consolidated financial statements.

2. Endorsement/guarantee provided:

No.	Endorser/ Guarantor Company	Endorsee/Guarantee		Quotas of Endorsement/ Guarantee for Single Enterprise (note 1)	Endorsement/ Guarantee Balance, Highest	Endorsement/ Guarantee Balance, Ended (note 2)	Endorsement/ Guarantee Warranted by Property	Accumulated Endorsement/ Guarantee amounts to Financial Statement's Net Value Rate	Highest Quotas of Endorsement/ Guarantee (note 1)
		Company	Nature of Relationships						
0	The Company	Martek Co., Ltd.	Subsidiary	1,634,728	37,000	20,000	-	0.24%	4,086,821

Note 1: Quota of Endorsement/Guarantee for Single Enterprise was 20% of the Company's net equity, and the highest quota was 50% of the net equity.

Note 2: Have been eliminated as filing consolidated financial statements.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Marketable securities held:

Unit: thousand shares

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2009				Note
				Shares (unit)	Carrying Value	Percentage of Ownership	Market Value (Net Asset Value)	
The Company	INDIA ETF	-	Financial assets at fair value through profit or loss - current – foreign stock	8	5,648	-	5,648	-
The Company	KOREA INDEX FUND	-	"	2	3,048	-	3,048	-
The Company	GPPC Corporate Bond A	-	"	150	15,000	-	15,000	-
The Company	RSX	-	"	4	3,997	-	3,997	-
The Company	SJM HOLDINGS	-	"	150	2,649	-	2,649	-
The Company	Cathay MAN AHL Diversified Future Fund	-	Financial assets at fair value through profit or loss - current – open-ended fund	1,000	9,420	-	9,420	-
The Company	JF (Taiwan) China Best Selection	-	"	1,000	9,980	-	9,980	-
The Company	Advanced International Multitech Corporate Bond B	-	Financial assets at fair value through profit or loss - current – bond	200	20,808	-	20,808	-
The Company	Huaku Corporate Bond B	-	"	450	46,359	-	46,359	-
The Company	CHIPBOND Corporate Bond B	-	"	400	41,212	-	41,212	-
The Company	Ambassador Hotel Corporate Bond A	-	"	300	30,453	-	30,453	-
The Company	Masterlink Corporate Bond A	-	"	500	51,005	-	51,005	-
The Company	KUNG LONG Corporate Bond A	-	"	500	52,671	-	52,671	-
The Company	TMTEC Corporate Bond B	-	"	30	31,059	-	31,059	-
The Company	CTCI Corporate Bond A	-	"	20	20,000	-	20,000	-
The Company	TA CHEN STAINLESS PIPE Corporate Bond A	-	"	100	10,000	-	10,000	-
The Company	First Bank 2PP1 STRIP Corporate Bond	-	"	-	99,530	-	99,530	-
The Company	CB 2 (Forward Electronics)	-	"	300	28,950	-	28,950	-
The Company	CB 1 (Uni-president)	-	"	40	4,104	-	4,104	-
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of the Company	Long-term equity investment	11,500	160,591	100.00	160,591	-
The Company	Holy Stone Holdings Co., Ltd. Stock	"	"	26,976	892,765	100.00	892,765	-
The Company	UHOLY Investments Co., Ltd.	"	"	22,500	587,110	57.69	585,732	-
The Company	Taiwan Mahk Opt Co., Ltd. Stock	"	"	176	4,329	70.56	10,161	-
The Company	Martek Co., Ltd. Stock	"	"	3,800	95,139	100.00	95,139	-
The Company	JungChan Investments Co., Ltd. Stock	"	"	34,000	470,915	100.00	470,915	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets - noncurrent	1,351	193,657	-	193,657	-
The Company	eGalax_eMPIA Technology Inc. Stock	-	"	1,304	114,290	-	114,290	-
The Company	INPAQ Technology Co., Ltd. Stock	-	"	1,117	34,295	-	34,295	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	Financial assets carried at cost - noncurrent	7,500	300,000	-	-	-

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED 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	-	-	-	-	115,262	1,590,000	115,262	1,590,000	1,590,621	621	-	-	
The Company	Yuanta Wan-tai Fund		-	-	2,774	40,000	29,075	420,000	31,849	460,392	460,000	392	-	-	
The Company	Mega Diamond Bond Fund	"	-	-	-	-	86,478	1,030,000	86,478	1,030,685	1,030,000	685	-	-	
The Company	Cathay Bond Fund	"	-	-	-	-	13,411	160,000	13,411	160,331	160,000	331	-	-	
The Company	EnTrust Phoenix Bond Fund	"	-	-	-	-	12,857	200,000	12,857	200,183	200,000	183	-	-	
The Company	JungChan Investments Co., Ltd. Stock	Long-term equity investment	Note	Note	20,000	253,352	14,000	140,000	-	-	-	-	77,563	34,000	470,915

Note: The Company increase held shares through participating in JungChan's capital increase.

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	558,917	5.03%	Next month-end 120 days	-	-	217,590	7.40%	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	Sales	1,014,493	9.13%	Next month-end 150 days	-	-	405,180	13.79%	-
The Company	INFORTECH (CHINA) Co., Ltd.	Subsidiary of H.S.I	Sales	305,735	2.75%	Month-end 120 days	-	-	72,170	2.46%	-

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	217,590	2.55	-	-	56,690	-	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	405,180	2.17	-	-	86,280	-	-

9. Derivatives transaction:

Please refer to "Financial Statements Notes 4.2" to get the Company's derivatives transaction information in 2009.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Related information on investee companies of 2009 was as follows:

- 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, 2009			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				Dec. 31, 2009	Dec. 31, 2008	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%	160,591	11,813	11,813	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	SAMORA	Investment activities	841,951	250,701	26,976	100.00%	892,765	27,207	27,207	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	587,110	36,129	20,843	Subsidiary of the Company
The Company	Taiwan Mahk Opt Co., Ltd.	Yilan County	Miniature camera and components manufacturing and selling, Optical machinery and	75,350	75,350	176	70.56%	4,329	(10,319)	(7,282)	Subsidiary of the Company
The Company	Martek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	-	3,800	100.00%	95,139	54,400	54,400	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	-	-	-	(4,026)	(2,727)	Subsidiary of the Company
The Company	JungChan Investments Co., Ltd.	Taipei City	Investment activities	200,000	-	34,000	100.00%	470,915	77,563	77,563	Subsidiary of the Company
Holy Stone Holdings	Hec JAPAN TECHNOLOGY Co., Ltd.	Japan	Electronic components trading	USD 93,127	USD 93,127	-	-	-	JPY (10,018,005)	USD (587,135)	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 7,602,438	USD 936,173	USD 936,173	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 194,699	USD (273,813)	USD (273,813)	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	2,140	100.00%	USD 1,065,099	USD 56,749	USD 56,749	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 16,493,907	註	註	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 5,347,856	CNY 3,483,684	USD 504,437	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	USD -	2,100	100.00%	USD 2,217,686	CNY 3,014,559	USD 436,508	Subsidiary of Holy Stone Investments Co., Ltd.
INFORTECH (CHINA) CO., LTD.	Zierra (Wuhan) Electronic Tech Co, Ltd.	CHINA	Electronic components selling	CNY 1,500,000	CNY -	1,500	100.00%	CNY 1,467,637	CNY 107,034	CNY 107,034	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 160,919	CNY (1,868,856)	USD (270,611)	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 775,485	CNY (138,631)	USD (20,073)	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 100,215	USD 48,221	USD 48,221	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 168,806	GBP 18,828	USD 29,445	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%	29,208	9,077	4,675	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	1,266	29.79%	3,786	USD (612,698)	(5,899)	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%	35,188	CHF 230,528	21,605	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%	4,747	USD (1)	(27)	Subsidiary of Holy Stone Healthcare Co., Ltd.
The Company	OHGA Electronics Co., Ltd.	Taipei County	Electronic appliances and audio-visual electronics manufacturing	332,640	-	12,600	70%	394,538	114,329	80,030	Subsidiary of JungChan Investments Co., Ltd.

Note: The subsidiaries have recognized relevant income.

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Financing to related parties:

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

Note: 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, 2009				Note
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
Holy Stone Holdings Co., Ltd.	CHINA THEMATIC FUN	-	Financial assets at fair value through profit or loss - current	3	USD 341,490	-	USD 341,490	-
Holy Stone Holdings Co., Ltd.	Stock of Holy Stone Investments Co., Ltd	Subsidiary of H.S.H	Long-term equity investment	6,900	USD 7,602,438	100.00	USD 7,602,438	-
Holy Stone Holdings Co., Ltd.	Stock of Holy PAQ Corporation	Subsidiary of H.S.H	Long-term equity investment	1,200	USD 194,699	100.00	USD 194,699	-
Holy Stone Holdings Co., Ltd	Stock of Green Glory Holdings	Subsidiary of H.S.H	Long-term equity investment	2,140	USD 1,065,099	100.00	USD 1,065,099	-
Holy Stone Holdings Co., Ltd	Stock of Mayatek Co., Ltd.	Subsidiary of H.S.H	Long-term equity investment	2,500	USD 16,493,907	100.00	USD 4,335,070	-
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 5,347,856	100.00	CNY 36,881,766	-
Holy Stone Investments Co., Ltd	Stock of INFORTECH (CHINA) CO., LTD.	Subsidiary H.S.I	Long-term equity investment	2,100	USD 2,217,686	100.00	CNY 15,294,389	-
INFORTECH (CHINA) CO., LTD.	Stock of Zierra (Wuhan) Electronic Tech Co, Ltd.	Subsidiary of G.G.H	Long-term equity investment	1,500	CNY 1,467,637	100.00	CNY 1,467,637	-
Holy PAQ CORPORATION	Stock of HolyPAQ (Dongguan) Corporation	Subsidiary of H.P	Long-term equity investment	1,000	USD 160,919	100.00	CNY 1,109,785	-
Green Glory Holdings	Stock of INFORTECH International Trading (Shanghai) Ltd.	Subsidiary of G.G.H	Long-term equity investment	1,000	USD 775,485	100.00	CNY 5,348,173	-
Green Glory Holdings.	Milestone Global Technology Ltd.	Subsidiary of G.G.H	Long-term equity investment	500	USD 100,215	100.00	USD 100,215	-
Green Glory Holdings.	Holystone (Europe) Ltd.	Subsidiary of G.G.H	Long-term equity investment	350	USD 168,806	100.00	GBP 104,654	-
UHOLY Investments Co. Ltd.	Fuh Hwa Fund	-	Financial assets at fair value through profit or loss - current	3,776	52,167	-	52,167	-
UHOLY Investments Co. Ltd.	Stock of CReTE	-	Financial assets at fair value through profit or loss - current	3	235	-	235	-
UHOLY Investments Co. Ltd.	Stock of NAK	-	Financial assets at fair value through profit or loss - current	50	1,655	-	1,655	-
UHOLY Investments Co. Ltd.	TSEC Taiwan 50	-	Financial assets at fair value through profit or loss - current	1	46	-	46	-
UHOLY Investments Co. Ltd.	Stock of Holy Stone Healthcare Co. Ltd.	Subsidiary. Of U.I	Long-term equity investment	6,500	29,208	49.62	29,208	-
UHOLY Investments Co. Ltd.	Stock of EETI	-	Available-for-sale financial assets - noncurrent	5,292	463,613	-	463,613	-
UHOLY Investments Co. Ltd.	Stock of INPAQ Technology Co., Ltd.	-	Available-for-sale financial assets - noncurrent	8,465	259,888	-	259,888	-

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2009				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	6.83	19,757	-
UHOLY Investments Co. Ltd.	Stock of Metanoia Communication Inc. Stock	-	Financial assets carried at cost - noncurrent	599	6,828	1.94	6,828	-
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	-	Long-term equity investment	1,266	3,786	29.79	USD 118,364	-
Holy Stone Healthcare Co., Ltd.	MDT INT'L SA	Subsidiary of H.H	Long-term equity investment	1,275	35,188	50.00	CHF 709,012	-
Holy Stone Healthcare Co., Ltd.	Global Search Holdings Ltd.	Subsidiary of H.H	Long-term equity investment	150	4,747	100.00	USD 148,386	-
Holy Stone Healthcare Co., Ltd.	Fuh Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	508	7,022	-	7,022	-
JungChan Investments Co., Ltd (J.C)	Stock of Metanoia Communication Inc. Stock	-	Financial assets carried at cost - noncurrent	150	4,500	0.47	4,500	-
JungChan Investments Co., Ltd	OHGA Electronics Co., Ltd.	Subsidiary of J.C	Long-term equity investment	12,600	394,538	70.00	394,538	-
JungChan Investments Co., Ltd	Fuh Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	1,777	24,557	-	24,557	-
JungChan Investments Co., Ltd	Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	1,759	21,034	-	21,034	-
JungChan Investments Co., Ltd	Cathay MAN AHL Diversified Future Fund	-	Financial assets at fair value through profit or loss - current	500	4,710	-	4,710	-
JungChan Investments Co., Ltd	Taiwan Hon Chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current	117	6,201	-	6,201	-
JungChan Investments Co.	Quanta Storage Inc.	-	Financial assets at fair value through profit or loss - current	187	11,501	-	11,501	-
JungChan Investments Co.	Longwell Company	-	Financial assets at fair value through profit or loss - current	150	8,025	-	8,025	-
OHGA Electronics Co., Ltd.	Yuanta Wan-tai Fund	-	Financial assets at fair value through profit or loss - current	2,420	35,019	-	35,019	-
OHGA Electronics Co., Ltd.	NIFC Bond Fund	-	Financial assets at fair value through profit or loss - current	59	10,019	-	10,019	-
OHGA Electronics Co., Ltd.	Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	837	10,010	-	10,010	-
OHGA Electronics Co., Ltd.	Masterlink Corporate Bond A	-	Financial assets at fair value through profit or loss - current	100	10,201	-	10,201	-
OHGA Electronics Co., Ltd.	KUNG LONG Corporate Bond A	-	Financial assets at fair value through profit or loss - current	100	10,534	-	10,534	-
OHGA Electronics Co., Ltd.	CHIPBOND Corporate Bond B	-	Financial assets at fair value through profit or loss - current	100	10,303	-	10,303	-

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;

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	558,917	100.00 %	Next month-end 120 days	-	-	(217,590)	100.00%	-
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Subsidiary of H.S.I	Purchases	1,014,493	98.91 %	Next month-end 150 days	-	-	(405,180)	98.57%	-
INFORTECH (CHINA) CO., LTD.	The Company	Subsidiary of H.S.I	Purchases	305,735	71.67%	Month-end 120 days			(72,170)	55.18%	

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

10. Derivatives transaction:

Investee Companies' Derivatives Transaction in 2009:

No.	Company Name	Derivative	Nominal Principal (thousand)	Term	Fair Value
1	Martek Co., Ltd.	Forward Foreign Exchange Contract	USD 1,000	10.01.2009~01.08.2010	(83)
1	Martek Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.01.2009~01.27.2010	(43)
1	Martek Co., Ltd.	Forward Foreign Exchange Contract	USD 500	11.20.2009~02.08.2010	63
1	Martek Co., Ltd.	Forward Foreign Exchange Contract	USD 1,000	12.07.2009~02.09.2010	29
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.19.2009~01.15.2010	83
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.19.2009~02.16.2010	67
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.19.2009~03.18.2010	61
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	10.19.2009~04.16.2010	59
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	12.07.2009~01.14.2010	28
2	OHGA Electronics Co., Ltd.	Forward Foreign Exchange Contract	USD 500	12.07.2009~05.10.2010	16

Investee companies recognized financial assets at fair value through profit or loss – current of \$3,218 thousand in 2009.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11.3 Information on Investment in Mainland China

1. Status of investment

Unit: USD

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method	Accumulated Remittance as of Dec. 31, 2008	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2009	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, 2009
					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 504,437	USD 5,347,856	-
HolyPAQ (Dongguan) Corporation	Capacitors manufacturing and selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100 %	USD (270,611)	USD 160,919	-
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 (20,073)	USD 775,485	-
INFORTECH (CHINA) CO., LTD.	Electronic components selling	USD 2,100,000		USD 2,100,000	-	-	USD 2,100,000	100 %	USD 436,508	USD 2,217,686	-

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)	(USD 8,110,000)	4,904,185
246,643	259,439	

3. Significant transaction information of direct and indirect investment in investee company in Mainland China is described in Note 11.1 of Significant transaction information and No.11.2 of investee company information.

11.4 Significant transaction between parent and subsidiaries:

2009:

No. (note 1)	Name	counterparty	Relation-ship (Note 2)	Transaction status			
				Subject	Amount	Condition	% of consolidated net sales or consolidated total assets
0	the Company	Holy Stone Hong Kong	1	Sales	558,917	Next month-end 120 days	4.23%
0	the Company	Holy Stone Hong Kong	1	Accounts receivable	217,590	Next month-end 120 days	1.67%
0	the Company	Holy Stone Shanghai	1	Sales	1,014,493	Next month-end 150 days	7.67%
0	the Company	Holy Stone Shanghai	1	Accounts receivable	405,180	Next month-end 150 days	3.11%
0	the Company	INFORTECH	1	Sales	305,735	Month-end 120 days	2.31%
0	the Company	INFORTECH	1	Accounts receivable	72,170	Month-end 120 days	0.55%

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2008:

No. (note 1)	Name	counterparty	Relations- hip (Note 2)	Transaction status			
				Subject	Amount	Condition	% of consolidated net sales or consolidated total assets
0	the Company	Holy Stone Hong Kong	1	Sales	670,30	Next month-end 120 days	4.69%
0	the Company	Holy Stone Hong Kong	1	Accounts receivable	221,014	Next month-end 120 days	1.92%
0	the Company	Holy Stone Hong Kong	1	Sales	1,041,811	Next month-end 150 days	7.29%
0	the Company	Holy Stone Shanghai	1	Accounts receivable	528,159	Next month-end 150 days	4.59%
0	the Company	INFORTECH International	1	Sales	70,996	Month-end 120 days	0.50%
0	the Company	INFORTECH	1	Sales	188,106	Month-end 120 days	1.32%
0	the Company	INFORTECH	1	Accounts receivable	105,132	Month-end 120 days	0.91%
3	HEC	the Company	2	Royalty receivable	18,094	According to contracts	0.16%

Note 1: Filing method:

1. No.0 represents parent company.
2. Subsidiaries are numbered according company from No.1.

Note 2: Relationship is labeled as follows:

1. Subsidiaries of the parent.
2. Subsidiaries to the parent.
3. Subsidiaries to subsidiaries.

Note 3: As for business among parent and subsidiaries and transaction status, the Consolidated Companies only disclose the information of net sales and accounts receivable.

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.

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12.2 Geographic Information

The Consolidated Companies' operations by geographic area for the years ended December 31, 2009 and 2008, were as follows:

	2009			Consolidated
	Domestic	Foreign segment	Eliminations	
Unaffiliated companies	\$ 10,609,189	2,613,882	-	13,223,071
Affiliated companies	<u>1,886,624</u>	<u>68,413</u>	<u>(1,955,037)</u>	-
Total income	<u>\$ 12,495,813</u>	<u>2,682,295</u>	<u>(1,955,037)</u>	<u>13,223,071</u>
Segment profit	<u>\$ 1,334,259</u>	<u>51,725</u>	<u>(186,276)</u>	1,199,708
Investment loss				(5,899)
Interest expenses				<u>(16,283)</u>
Income before income taxes				<u>1,177,526</u>
Segment identifiable assets	<u>\$ 12,333,496</u>	<u>2,156,022</u>	<u>(3,058,648)</u>	11,430,870
Funds and investments				<u>1,578,423</u>
				<u>\$ 13,009,293</u>
	2008			Consolidated
	Domestic	Foreign segment	Eliminations	
Unaffiliated companies	\$ 13,568,523	727,313	-	14,295,836
Affiliated companies	<u>2,804</u>	<u>2,031,250</u>	<u>(2,034,054)</u>	-
Total income	<u>\$ 13,571,327</u>	<u>2,758,563</u>	<u>(2,034,054)</u>	<u>14,295,836</u>
Segment profit	<u>\$ 901,732</u>	<u>25,514</u>	<u>(51,203)</u>	876,043
Investment loss				(6,534)
Interest expenses				<u>(38,896)</u>
Income before income taxes				<u>830,613</u>
Segment identifiable assets	<u>\$ 12,038,336</u>	<u>2,084,908</u>	<u>(3,491,454)</u>	10,631,790
Funds and investments				<u>882,190</u>
				<u>\$ 11,513,980</u>

English Translations of Notes Originally Issued in Chinese
Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In order to reconcile segment financial information with the amount in financial statements, the following amount are accounted in Eliminations column of the above table:

1. For the years ended Decmeber 31, 2009 and 2008, segment profit from the parent and consolidated entities was NT\$186,286 thousand and NT\$51,203 thousand, respectively, maily for the eliminating investment income (loss).
2. For the years ended 2009 and 2008, segment identifiable assets were NT\$4,637,071 thousand and NT\$3,491,454 thousand, respectively, mainly for eliminating accounts receivable/ payable from related parties.

12.3 Export Sales

Net export sales of the Company were NT\$9,897,443 thousand and NT\$3,491,454 thousand in 2009 and 2008, and the details were as follows:

<u>Area</u>	<u>2009</u>	<u>2008</u>
Europe	\$ 67,915	70,512
Americas	625,787	140,285
Asia	9,202,592	9,943,549
Others	<u>1,149</u>	<u>787</u>
Total	\$ <u>9,897,443</u>	<u>10,155,133</u>

12.4 Major Customers

For the year ended December 31, 2009, the Consolidated Companies had no major customers representing at least 10% of gross sales.

For the year ended December 31, 2008, sales to customers representing more than 10% of revenue were as follows:

	<u>2008</u>	
	<u>Net revenue</u>	<u>% of net revenue</u>
Tech-Com (Shanghai) Computer Co., Ltd.	\$ <u>1,505,505</u>	<u>10.53</u>

Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang