



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

TWSE: 3026

Annual Report 2010

Printed on May 16, 2011

Taiwan Stock Exchange Market Observation Post System: <http://newmops.twse.com.tw>

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

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Deputy Spokesperson

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Title: Vice President

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2. Headquarters, Branch Offices, and Factories

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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.)

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

Auditor: Ching-Sung Wang and Chia-Hsin Chang

Company: KPMG

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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>

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1. Letter to Shareholders

Dear Shareholders,

Year 2010 has been an important period for the growth of Holy Stone. Within the year, we have put in vast resources, raised competitiveness, recruited outstanding personnel, established a New Products Development Division, and increased distribution lines. All of our contribution will help diversify our products, satisfying the needs of both the expanding market and our customers.

On a consolidated basis, revenue for 2010 totaled NT\$14.9 billion, a 13 percent increase from 2009; gross profit increased 2 percent to NT\$2.1 billion, with gross margin of 14%, while operating income decreased 6 percent to NT\$900 million, with operating margin of 6%. Net income was NT\$800 million, a 2 percent decrease from last year, with a 5% profit margin. Earnings per share decreased 6 percent to NT\$2.77.

Business plan for 2011

As a major provider of MLCC products, Holy Stone has established a strong position in global niche markets. This year, through vertical integration, we will be taking another step forward to strengthen our vendor relationship and product competitiveness while expanding our market share.

Last year, since taking over the Miharu Plant under Hitachi Group, Holy Stone had been undergoing continuous restructuring plan. In addition to transferring the production technology of Miharu Plant to Yilan Plant in Taiwan, Miharu Plant had shown strong growth, bringing in single-month profit in 3Q of 2009, earlier than projected. Miharu Plant had also gained approval from several Automotive components customers. We will continue to transfer production to Yilan Plant while boosting productivity in SMD Conductive Polymer Tantalum Capacitors.

Holy Stone is anticipating the expansion of ceramic substrate market for LED lighting in 2012, which sales result will gradually become prominent in the second half of 2011. Ceramic substrate together with other related products will play an important role in Holy Stone's growth in the future.

Focused yet elastic change

Ever since the financial crisis struck, various changes have hit global markets—the rise in new markets, change in consumers' needs, popularization of higher quality goods with lower price tags, etc. Despite these external factors, Holy Stone will continue to take a strong stance in implementing energy-saving policies and developing green components and systems. In addition, while China turned into a global manufacturing country, Holy Stone's sales have already reached and covered the major industrial cities within the country. This allows us to provide timeless, complete solutions to our customers while having a first-hand, clear picture of market trends.

Corporate Development

For the past thirty years, Holy Stone has built its appearance within and out of Taiwan. We will continue to create competitive advantages and meet the expectations of our employees, shareholders and customers in becoming one of the most valuable companies among stakeholders.

Last but not the least, I sincerely thank our fellow workers, as well as each and 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.

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.

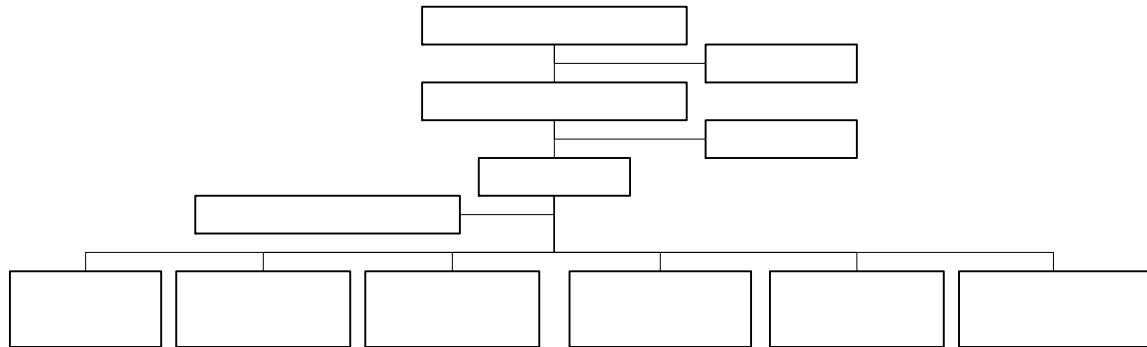
2.2. Milestones:

Jun. 1981	Holy Stone was founded in Taipei, Taiwan, with capital of NT\$2 million.
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 well-known electronic component manufacturers in West Germany, USA, UK, Singapore, and Japan.
Jul. 1989	Holy Stone implemented Internet system throughout the company.
Feb. 1993	Holy Stone established the Semiconductor Business Department, contributing to the research, development and sales of multimedia-related products
Mar. 1995	Holy Stone founded GSI Technology, Inc. in the U.S.
Oct. 1997	Holy Stone established a materials R&D department and invested in manufacturing
Apr. 1998	Holy Stone was approved by the “Securities & Futures 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 in Longtan (Taiwan).
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 billion.
May. 2005	Holy Stone bought a new office in Wenhua, Taipei.
Aug. 2005	Holy Stone’s third MLCC factory was established in Longtan (Taiwan).
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:



Shareholders

3.1.2. Major Corporate Functions:

3.1.2.1. Audit Team:

- Internal audit regulations establishment, revision, and examination.
- Internal control regulations discussion, audition, and revision.
- Overseas subsidiary regulations estimation, formulation, and examination.

Board of I

3.1.2.2. President Secretariat Office:

- Corporate operation development, consultation, and management.

Presi

3.1.2.3. Active Components B.U.:

- Market information collection and analysis, product marketing planning and execution, and selling channels expansion and management to achieve operating goals.

General Manager Office

3.1.2.4. Electronic Components B.U.:

- Market information collection and analysis, product marketing planning and execution, and selling channels expansion and management to achieve operating goals.

Administration

Active

Electronic

3.1.2.5. Component Manufacture B.U.:

- New products development, production, and manufacturing.

& Logistics

Components B.U.

Components B.U.

3.1.2.6. C.E. Components B.U.:

- Market information collection and analysis, product marketing planning and execution, and selling channels expansion and management to achieve operating goals.

3.1.2.7. Peripheral Components B.U.:

- Market information collection and analysis, product marketing planning and execution, and selling channels expansion and management to achieve operating goals.

3.1.2.8. Administration & Logistics:

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

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	11,592,549	3.62	2,394,972	0.75
Director	LIN TAN INVESTMENT CO., LTD.	06/16/2009	3 yrs	-	14,419,239	5.14	14,707,623	4.59	-	-
Representative of LIN TAN INVESTMENT CO., LTD.	Chyang Lo	-	-	01/01/2010	2,405	0.00	2,405	0.00	4,795	0.00
Representative of LIN TAN INVESTMENT CO., LTD.	Yu-Min Wu	-	-	06/16/2009	1,165,292	0.42	1,165,292	0.36	17,939	0.01
Director	Shih-Yun Sheng	06/16/2009	3 yrs	09/09/1997	4,094,407	1.46	4,445,567	1.39	2,595,921	0.81
Director	Shao-Kuo Huang	06/16/2009	3 yrs	06/09/2006	2,550,277	0.91	2,599,292	0.81	1,467,076	0.46
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	943,764	0.29	-	-
Supervisor	Chung-Yi Yang	06/16/2009	3 yrs	04/23/1999	651,129	0.23	725,186	0.23	-	-
Supervisor	J.S. Chen	06/16/2009	3 yrs	06/16/2009	-	-	-	-	-	-

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

Major shareholder of juridical person shareholder

As of 04/12/2011

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 04/12/2011

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 04/12/2011

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. Representative of incorporated directors, Shieh Yih Machinery Industry 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	Attorney at law, J.S. Int'l Attorneys At Law Adjunct Associate Professor, Law Department of Central Police University Chairman, Financial Securities and Futures Law Committee of Taipei Bar Association 25 th Director, Taipei Bar Association Director, Golden Bridge Electech Inc. Director, K.H.C Corporation Representative of incorporated directors, Taiwan Pulp & Paper Co.	-	-	-

Information of directors and supervisors

Name/Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience		
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company
Jing-Rong Tang	-	-	✓
Representative of LinTan Investments Co., Ltd.: 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 serves as independent director concurrently while they individually serve as Holy Stone's independent director.

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	11,592,549	3.62	2,394,972	0.75	-	-
Director & Vice Executive President	Shih-Yun Sheng	04/01/2002	4,445,567	1.39	2,595,921	0.81	-	-
Vice President of Management Team	Yu-Min Wu	02/13/1984	1,165,292	0.36	17,939	0.01	-	-
Director & Vice President	Shao-Kuo Huang	07/01/2005	2,599,292	0.81	1,467,076	0.46	-	-
Vice President	Sheng-Yao Lu	07/01/2005	443,664	0.14	159,224	0.05	-	-
Vice President	I-Ta Lee	01/01/2006	269,278	0.08	-	-	-	-
Vice President	Hui-Bang Yeh	12/01/2007	357,525	0.01	-	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang	10/06/1997	238,549	0.07	-	-	-	-

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

Unit: Shares as of 04/12/2011

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 Master of Business Administration, Macau University of Science and Technology	Representative of incorporated directors, Infortech (China) Co., Ltd Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, Accounting, Providence University	Supervisor, EEIT Representative of incorporated directors, Infortech (China) Co., Ltd. Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, Business Management, Tatung University	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.	-	-	-
Master, Management Science & Decision Making, TKU	Supervisor, Infortech (China) Co., Ltd. Representative of supervisors, EEIT	-	-	-

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

Remuneration Paid to Directors (Including Independent Directors)

Title	Name	Remuneration								Total Remuneration (A+B+C+D) as a % of Net Income (Note 3)	
		Base Compensation (A)		Retirement Allowance (B) (Note 1)		Profit Sharing (C) (Note 2)		Allowance (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.: Chyang Lo (c)										
Director	Representative of LIN TAN INVESTMENT CO., LTD.: Yu-Min Wu (d)	-	-	-	-	16,940	17,251	720	840	2.12	2.18
Director	Shao-Kuo Huang (e)										
Independent Director	Ken-Yi Cheng (f)										
Independent Director	Nai-Hua Wu (gi)										

Note 1: There was no retirement allowance paid during 2010.

Note 2: The proposed profit sharing of 2010 will take effect upon the approval of directors at the Board before the Annual Shareholder Meeting in 2011.

Note 3: Net Income: 2010 net income.

Note 4: The Board adopted a proposal for 2010 employee profit sharing distribution of NT\$117,000 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	b.d.e.f.g.	b.e.f.g.	f.g.	f.g.
NT\$2,000,000~NT\$5,000,000	c.	c.d.	b.c.d.e.	c.e.
NT\$5,000,000~NT\$10,000,000	a.	a	-	b.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	7	7	7	7

Unit: Thousand shares/ NT\$ thousands as of 12/31/2010

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						
				Cash	Stock	Cash	Stock					
9,749	12,197	-	-	N.A	N.A	N.A	N.A	1,870	1,870	3.29	3.65	Yes

Remuneration Paid to Supervisors

Unit: NT\$ thousands as of 12/31/2010

Title	Name	Remuneration Paid to Supervisors						Total Remuneration (A+B+C) as a % of Net Income (Note 2)		Compensation Paid to Directors from Nonconsolidated Affiliates
		Base Compensation (A)		Retirement Allowance (B) (Note 1)		Profit Sharing (C)		From Holy Stone	From All Consolidated Entities	
		From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities			
Supervisor	Tang-Ming Wu (a)									
Supervisor	Chung-Yi Yang (b)	-	-	5,060	5,360	720	840	0.69	0.75	None
Supervisor	J.S. Chen (c)									

Note 1: The proposed profit sharing of 2010 will take effect upon the approval of directors at the Board before the Shareholder Meeting in 2011.

Note 2: Net Income: 2010 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.	c.
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	3	3

Compensation Paid to President and Vice Presidents

Unit: Thousand shares/ NT\$ thousands as of 12/31/2010

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)	14,626	17,074	-	-	-	-	N.A	N.A	N.A	N.A	1.76	2.06	3,100	3,100	Yes
Vice Executive President	Shih-Yun Sheng (b)															
Vice President	Yu-Min Wu (c)															
Vice President	Shao-Kuo Huang (d)															
Vice President	Sheng-Yao Lu (e)															
Vice President	I-Ta Lee (f)															
Vice President	Hui-Bang Yeh (g)															

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.

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	b.e.f.g.	e.f.g.
NT\$2,000,000~NT\$5,000,000	a.c.d.	a.b.c.d.
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	7	7

Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands as of 12/31/2010

	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 m e n t T e a m	President	Jing-Rong Tang	0	28,000	28,000	3.36
	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 2009 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 (%)			
	2010		2009	
	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities
Directors	3.29 (note)	3.65 (note)	6.84	7.05
Supervisors	0.69	0.75	0.67	0.69
President & Vice Presidents	1.76 (note)	2.06 (note)	6.60	6.30

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 sharing. 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 employees under the consideration of employee's position, responsibility, and performance, 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 7 (A) board of directors meetings in 2010. The directors' attendance status is as follow:

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

Annotations:

1. There were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion that should state date, term, proposal contents, and all opinions of independent directors and handling of those opinions from corporate.
2. There were no recusals of directors due to conflicts of interests that should state directors' name, proposal contents, reasons to avoid interests, and conditions of participating in votes.
3. Evaluation of measures taken to strengthen the functionality of the Board and of implementation:
 - (1) The operation of the Board of Directors is in accordance with law, the Articles of Association, the Board's Procedural Rules and the discussion rules of Shareholders' meetings.
 - (2) Designating specialists to announce information required to be disclosed by law. Specialists are responsible to upload accurate information to the Market Observation Post System in a timely manner, and disclose the information on the Company's website simultaneously.

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 7 (A) board of directors meetings in 2010. 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	6	-	85.71	
Supervisor	Chung-Yi Yang	6	-	85.71	
Supervisor	J.S. Chen	6	-	85.71	

Annotations:

1. Composition 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. Regularly attending the Board, shareholders' 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 following month after 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 semi-annually 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, and all opinions of supervisors and handling of those opinions from corporate.

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

Item	Implementation Status	Deviation from rules as required by the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons
<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, public relation team, and stock affairs office to handle relative matters. 2. Shareholders meetings are held by its corresponding discussion rules.</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 be in touch with stock agent institution to hold the list of main shareholders and its main controllers and to declare status of net change in shares pledged by insiders and main shareholders according to 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. Before hiring a new accountant, the accountant will be evaluated by directors and supervisors who also have accounting and finance background. 2. The accountants and auditing company currently hired are neither the related parties of the Company nor have any interests in the Company, and will hold the independency. 3. Directors and supervisors of the Company hold discussions with the accountants semiannually regarding financial statements and corporate governance, and to follow the latest information on finance and tax accounting.</p>	<p>None</p> <p>None</p>

Item	Implementation Status	Deviation from rules as required by the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons
3. Communication channel with stakeholders	<p>(1) Designated personnel handles relative matters.</p> <p>(2) Independent directors and supervisors should contact stakeholders directly when 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 the Company through e-mail, phone, fax, or letter, and the contact information are listed on M.O.P.S and the Company's website.</p>	<p>None</p> <p>None</p> <p>None</p>
<p>4. Information Disclosure</p> <p>(1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance status</p> <p>(2) Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)</p>	<p>(1) The Company has already founded a website which updates regularly and has the information of products, corporate introduction, and financial statements.</p> <p>(2) The Company has appointed spokespersons. In addition, the designated personnel 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>
5. Operations of the Company's Nomination Committee, Compensation Committee, or other functional committees of the Board of Directors	The Company has not established any Nomination Committee, Compensation Committee, or other functional committees.	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 execute based on company's status.
<p>6. If the Company has established corporate governance policies based on TWSE 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 directors' and supervisors' authority execution, internal control system, and relevant managing measures, we have complied with the policy and exercised accordingly.</p>		

Item	Implementation Status	Deviation from rules as required by the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies" and the reasons
<p>7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations and stakeholders rights, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer policies, and purchasing of insurance for directors and supervisors):</p> <p>(1)Employee rights and employee wellness</p> <p>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.</p> <p>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.</p> <p>iii. Compensation paid to workers shall comply with all applicable wage laws and local practices to protect human rights and employee benefits. This includes those related to minimum wage, overtime hour, and so on.</p> <p>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 to take care of their health, but also teaches them to protect themselves upon hazardous situations. According to the Labor Safety and Health Law, we have technician manager of labor health and safety who is responsible for conducting regular work environment safety examinations and creating awareness on employees' safety. Industrial safety is always a priority in our internal audit for employee management; therefore, every employee and management team shall set self-expectations for "Zero Accidents."</p> <p>v. The achievements of enterprise's goals rely 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. As of today, there is no dispute between labors and management.</p> <p>(2)Investor relations: Appointing spokespersons and designated people to set up effective communication channels with investors and customers. The e-mail address is as follow: Spokesperson: IR@holystone.com.tw</p> <p>(3)Supplier relations: Besides executing Green Management, the Company also manages supplier relations actively with good strategic cooperation. Please refer to the Company's CSR Report for more details. http://holystone.com.tw</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 delegates, and continuing education:</p> <p>i. The Company's directors and supervisors have backgrounds and work experiences in the area of commerce, law, finance, accounting, and business management.</p> <p>ii. Website: http://mops.twse.com.tw.</p> <p>(6)Risk management policies: Please refer to P.61-P.63 of this Annual Report.</p> <p>(7)The implementation of customer policies: The Company complies with ISO 9001 and offers complete service to customers. The Company not only makes improvement on quality but also has technical discussions 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 directors and supervisors: Holy Stone has bought liability insurance for directors and supervisors, and the maximum amount of compensation is US\$5 million at a time and in a yearly accumulative total.</p> <p>(9)The Company received CSR-related award from <i>Global Views Magazine</i> in 2010.</p>		
<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</p>		

3.3.4. Disclosure, if any, on Compensation Committee's formation, responsibilities and operational status

The company currently does not have a Compensation Committee, but upon the request of government authority, the committee will be established before December 31, 2011.

3.3.5. Corporate Social Responsibility

Item	Implementation Status	Deviation from rules as stated by the “CSR Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
<p>1. Promote Corporate Governance</p> <p>(1) Status of establishing strategies for corporate social responsibilities or policies, and reviewing results</p> <p>(2) Status of designating personnel to promote CSR</p> <p>(3) Status of establishing awards/discipline policy based on employees' performance in the regular training programs on promoting business ethics for directors, supervisors and employees</p>	<p>(1) The Company has collected the results of corporate social responsibility activities and included them in the CSR report. As posted on the Company's website, CSR strategies are as follow:</p> <ol style="list-style-type: none"> 1. Comply with legal requirements and standards of business ethics. 2. Put corporate regulations into practice, creating corporate value and protecting shareholders' rights. 3. Establish environmentally-friendly policies. 4. Develop green products, lessen the negative effects imposed to the environment. 5. Continuously improve work environment, looking after the needs of the employees 6. Care for the minorities, encourage employees' participation in community services. <p>(2) Designated personnel is responsible for promoting CSR, regularly review the implementations, and preparing CSR report.</p> <p>(3) Annual networking event for directors and supervisors is held to promote corporate culture and business principles.</p>	<p>None. If necessary, execution will be based on rules of “CSR Best Practice Principles for TWSE/GTSM-Listed Companies” and other related rules.</p> <p>None</p> <p>None</p>
<p>2. Develop Sustainable Environment</p> <p>(1) Status of maximizing resource utilization, using recycled materials to minimize its negative impact on the environment</p> <p>(2) Status of establishing the ideal environmental protection system that best suits the industry</p> <p>(3) Status of establishing an environmental management division or personnel to protect the environment</p> <p>(4) Status of attending to climatical impact on operating activities, and developing strategies to reduce carbon emissions and greenhouse gases</p>	<p>(1) Implement waste management, reuse waste solvents, reduce purchase of solvents, and ultimately ease the impact of environmental harm.</p> <p>(2) Qualify for ISO 14001 Environmental Management System certificate.</p> <p>(3) Set up an Environmental Safety Division</p> <p>(4) Set up a Waste Reduction Team and plan</p>	<p>None</p> <p>None</p> <p>None</p> <p>None</p>
<p>3. Protect Social Welfare</p> <p>(1) Status of abiding to related labor laws, protecting the rights of employees, and framing suitable management procedures</p>	<p>(1) 1. Establish Company policies based on the Labor Law, and revise and update according to amendments to the Labor Law.</p> <p>2. Based on the Gender Equality in Employment Act, establish committee to handle complaints, create a complaint system and harassment prevention</p>	<p>None</p>

Item	Implementation Status	Deviation from rules as stated by the "CSR Best Practice Principles for TWSE/GTSM-Listed Companies" and the reasons
(2) Status of providing a work environment that is hazard-free and training employees on safety and health issues regularly	<p>measures to protect employees' rights.</p> <p>(2)1. Conduct regular health examinations, hold health promotional activities, strengthen employees' concept on health issues. New employees in factories are required to attend Labor safety lessons and, within the year, participate in safety training education, fire safety drills, and training on emergency procedures for chemical leakage and safe operation of gas.</p> <p>2. Annually hold retraining programs for fire prevention management and emergency first aid personnel.</p> <p>3. Form suitable emergency teams according to each geographic area and strengthen security protection in offices.</p>	None
(3) Status of disclosing consumers rights policy and providing transparent and efficient complaints procedure for corresponding products and services	<p>(3)1. Set up a sales personnel to resolve customer complaints</p> <p>2. Handle customer complaints in accordance with "Customer Complaints Procedure"</p> <p>3. Periodically survey customers' satisfaction</p>	None
(4) Status of cooperation between the Company and its vendors to raise awareness of Corporate Social Responsibility	<p>(4)1. Require vendors to use non-hazardous substances in their products, and provide Restriction of Hazardous Substances (RoHS) directive during approval of purchases of raw materials.</p> <p>2. Require vendors to use recycled packaging material (paper boxes) and reuse plastic pallets as substitute for wooden pallets.</p>	None
(5) Status of the Company's participation in charities or community development, through commercial activities, donations, community services, or other services	<p>(5)1. Holy Stone Foundation was founded in December 2001 aiming to help the community and assist disadvantaged families. We not only established Emergency Aid to help individuals and families in emergency, but also offer scholarships to well-performing students, enabling those to advance further in their studies. Furthermore, we also sponsor several non-profit organizations to promote awareness for those in need.</p> <p>2. Employee Donations: Since 1997, our employees have continuously made regular donations to non-profit organizations such as rural district hospitals and child care institutions.</p> <p>3. Holy Stone's Goodwill Team: Formed in 2010, our Goodwill Team holds second-hand sales, which proceeds are donated in full to non-profit foundations to help those in remote areas.</p> <p>4. Combining corporate activities with public welfare: holding second-hand sales, which proceeds are donated in full to non-profit foundations to help those in remote areas.</p> <p>5. Awards: Received CSR-related awards</p>	None

Item	Implementation Status	Deviation from rules as stated by the “CSR Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
	from <i>Global Views Magazine</i> in 2010.	
<p>4. Promoting Information Transparency</p> <p>(1) Method of disclosing relevant and reliable information relating to corporate social responsibility</p> <p>(2) Status of disclosing the promotion of corporate social responsibility in CSR report</p>	<p>(1) Disclose commitments on corporate social responsibility under “Corporate Social Responsibility” on the corporate website.</p> <p>(2) Disclose CSR report annual on the corporate website. Please refer to: http://www.holystone.com.tw</p>	<p>None</p> <p>None</p>
<p>5. If the Company has its own CSR guidelines in accordance with “Corporate Social Responsibility Best Practices Principles for TWSE/GTSM-Listed Companies,” please describe the difference in the Company’s guidelines and its actions: The Company has not constructed a separate set of CSR guidelines, but our operating activities go along with the legal requirements and we have prepared the CSR report. The Company’s self-assessment result shows that there is no deviation between the two.</p>		
<p>6. Other supplementary information that is relevant to understanding the operations of CSR (e.g. the Company’s system and measures toward environment, community, community service, community welfare, consumer rights, human rights, safety and hygiene, and others): All information regarding CSR is fully disclosed in each year’s CSR Reports, please refer to the Company’s website.</p>		
<p>7. Please describe, if any, the Company’s product or CSR report that have passed standard examinations by related certification body: The Company’s CSR Report was completed after suggestions were given by the Taiwanese Industrial Development Bureau—Ministry of Economic Affairs in accordance with “Industrial Sustainable Development and International Environmental Protection Standards Project.”</p>		

3.3.6. The Company's reliability in operations and measures adoption

The Company believes in anti-corruption, transparency, reliability, and compliability. Creating superior corporate governance and risk management system to support CSR, setting sustainable development as our goal, we adopt the following measures to manage both internally and externally.

1. Comply with legal requirements, respect the higher standards of business ethics;
2. Improve and penetrate corporate governance to maximize corporate value and shareholders' rights;
3. Implement environmentally-friendly measures;
4. Develop green products to minimize negative impact on the environment;
5. Continuously improve work environment, looking after the needs of the employees;
6. Care for the minorities, encourage employees' participation in community services and charity events.

The Company has directors' interest avoidance and information disclosure system included in "Boards' Rules of Procedure" and "Procedures for Important Internal Information Management." Other policies such as "Accounting Policies" and "Internal Control System" also ensures the Company's reliability in operations.

3.3.7. If Corporate Governance and relevant policies are available to the public, the inquiry methods should be disclosed

Regulations of Holy Stone:

1. Articles of incorporation
2. Shareholders meeting discussion rules
3. Directors and supervisors Voting System
4. Board of directors discussion rules
5. Endorsement / Guarantee procedures
6. Procedures governing the acquisition and disposal of assets
7. Procedures governing the loan of funds
8. Procedures for Important Internal Information Management

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

3.3.8. Other Information that would increase the understanding of the Corporate governance operation should be disclosed

The Company has published a CSR Report in 2010. which is available on the website:

www.holystone.com.tw .

3.3.9. Internal Control System Execution Status Items

3.3.9.1. Statement of Internal Control System

Holy Stone Enterprise Co., Ltd.
Statement of Internal Control System

Date: March 18, 2011

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, 2010 to December 31, 2010:

1. Holy Stone is fully aware that establishing, operating, and maintaining an internal control system are the responsibilities of its Board of Directors and management. Holy Stone has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of Holy Stone contains self-monitor 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 (herein below, 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 2010, 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 2010 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 18, 2011, 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:

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

3.3.10. The Status of Corporate and its Internal Staff punished by the Law, punishment of the Corporate to its Internal Staff who violated Internal Control Regulations, Main Drawbacks, and Improvements during 2010 and as of May 16, 2011
None.

3.3.11. Important Decisions Made by Shareholder Meeting and the Board during 2010 and as of May 16, 2011.

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

Date	Decided by	Major Resolutions	Implementation Status
2010.06.14	Shareholders' Meeting	<ol style="list-style-type: none"> 1.The approval for 2009 business report and 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 amendment of the Company's "Endorsement / Guarantee procedures." 5.The approval for the amendment of the Company's "Procedures governing the loan of funds." 6.The approval for releasing directors from the restriction of non-competition clause. 	All resolutions have been fully implemented accordingly.
2010.01.25	Board Meeting	The approval for 2010 business report.	All resolutions have been fully implemented accordingly.
2010.02.22	Board Meeting	The approval for the establishment of Yilan branch office.	All resolutions have been fully implemented accordingly.
2010.03.26	Board Meeting	<ol style="list-style-type: none"> 1. The approval for 2009 business report and 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." 	<ol style="list-style-type: none"> 1. Resolutions1, 4-7 have been fully implemented in accordingly. 2. Resolution 2 - distribution of 2009 profits would be \$3.00 per share, as passed by the attending directors and supervisors, with the rest of the resolution implemented accordingly. 3. Resolution 3 – regulation 2 of 2 would be "The corporate shares or bonds issued are exempt from printing actual securities, but should be collectively managed by a securities depository enterprise," with the rest of the resolution implemented accordingly. 4.The aforementioned resolutions should be implemented according to the Board Meetings.

Date	Decided by	Major Resolutions	Implementation Status
2010.05.11	Board Meeting	<ol style="list-style-type: none"> 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 the loan of funds." 3. The approval for the additional proposals in 2010 Shareholders' Meeting. 4. The approval for the release of directors from the restriction of non-competition clause. 	All resolutions have been fully implemented accordingly.
2010.06.14	Board Meeting	The proposal of ex-dividends by cash dividends payment.	All resolutions have been fully implemented accordingly.
2010.08.19	Board Meeting	<ol style="list-style-type: none"> 1.The approval for the first half of 2010 financial statements and consolidated financial statements. 2. The approval for full conversion of physical shares to non-physical shares. 	All resolutions have been fully implemented accordingly.
2010.11.17	Board Meeting	<ol style="list-style-type: none"> 1.The approval for the Company's 2011 internal audit project. 2.The approval for the Company's internal control system and the amendment of the Company's internal audit system. 	<ol style="list-style-type: none"> 1.Resolution 1 has been fully implemented accordingly. 2.Resolution 2 – the password of cash flow payments is to be updated regularly in "Internal Control System" and "Internal Audit System, as passed by the attending directors and supervisors, with the rest of the resolution implemented accordingly. 3.The aforementioned resolutions should be implemented according to the Board Meetings.
2011.01.24	Board Meeting	The approval for the business plan for 2010.	All resolutions have been fully implemented accordingly.
2011.03.18	Board Meeting	<ol style="list-style-type: none"> 1. The approval for 2010 business report and financial statements. 2. The approval for the distribution of 2010 profits. 3. The approval for buying back shares to distribute among the Company's employees based on legal requirements. 4. The approval for convening the 2011 Annual Shareholders' Meeting. 5. The approval for 2010 Statement of Internal Control System. 6. The approval for endorsements and guarantees for subsidiaries. 	All resolutions have been fully implemented accordingly.

3.3.12. Directors or Supervisors Who Have Different Opinions to Important Decisions Passed by The Board and With Records or Documental Declaration during 2010 and as of May 16, 2011.

None.

3.3.13. Collection of Information of personnel relating to Financial Reports

3.3.13.1. During 2010 and up to May 16, 2011, collection of resignation and dismissal of financial report related personnel

None.

3.3.13.2. The Company's employees and financial transparency related personnel, obtaining relevant license by competent authorities:

Republic of China Certified Professional Accountant (CPA) - one Accounting Manager.

3.4. Information Regarding Holy Stone's Independent Auditor

Audit Fee

Accounting Firm	Names of CPA		Auditing Term	Remarks
KPMG	Ching-Sung Wang	Chia-Hsin Chang	2010.01.01~2010.12.31	-

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:

None.

3.5. Change of Auditors

None.

3.6. Holy Stone's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations, who have held any position within Holy Stone's independent audit firm or its affiliates during 2010, should disclose his name, title, and term.

None.

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

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

Unit: Shares

Title	Name	2010		2011/01/01~2011/04/12	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & President	Jing-Rong Tang	1,189,723	-	-	-
Director	LIN TAN INVESTMENT CO., LTD.	-	-	-	-
Director & Vice Executive President	Shih-Yun Sheng	25,042	-	-	-
Director & Vice President	Shao-Kuo Huang	(16,020)	-	(90,000)	-
Independent Director	Nai-Hua Wu	-	-	-	-
Independent Director	Ken-Yi Cheng	-	-	-	-
Supervisor	Chung-Yi Yang	61,035	-	-	-
Supervisor	Tang-Ming Wu	79,432	-	-	-
Supervisor	J.S Chen	-	-	-	-
Vice President of Management Team	Yu-Min Wu	164,963	-	-	-
Vice President	Sheng-Yao Lu	128,479	-	-	-
Vice President	I-Ta Lee	99,906	-	(25,000)	-
Vice President	Hui-Bang Yeh	84,229	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang	50,582	-	(3,000)	-

3.7.2. Information of Net Change in Shareholding: None.

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

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

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

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

Unit: shares / % as of 12/31/2010

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	-	-	22,500,000	57.69
MARTEK CO., LTD.	8,500,000	100.00	-	-	8,500,000	100.00
RONG JHAN INVESTMENT CO., LTD.	40,000,000	100.00	-	-	40,000,000	100.00

4. The Status of Fund Raising

4.1.Capital and Shares

4.1.1.Capitalization

4.1.1.1 The process of capitalization

Unit: Shares / 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
10/1990	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
07/1998	10	30,000,000	300,000,000	30,000,000	300,000,000	Retained earnings NT\$29.7 million and cash NT\$72.3 million	None	None
10/1999	10	55,000,000	550,000,000	36,690,000	366,900,000	Retained earnings NT\$54.9 million and capital surplus NT\$12 million	None	None
07/2000	10	59,500,000	595,000,000	56,174,133	561,741,330	Retained earnings NT\$150.17 million, capital surplus NT\$7.388 million, and cash NT\$37.333 million (Note 1)	None	None
07/2001	10	291,600,000	2,916,000,000	112,530,852	1,125,308,520	Retained earnings NT\$563.567 million (Note 2)	None	None
09/2002	10	291,600,000	2,916,000,000	127,955,555	1,279,555,550	Retained earnings NT\$97.982 million and capital surplus NT\$56.265 million (Note 3)	None	None
06/2003	10	291,600,000	2,916,000,000	127,978,095	1,279,780,950	Convertible bond for stock NT\$0.225 million (Note 4)	None	None
09/2003	10	291,600,000	2,916,000,000	140,099,983	1,400,999,830	Retained earnings NT\$121.219 million (Note 5)	None	None
09/2003	10	291,600,000	2,916,000,000	143,520,916	1,435,209,160	Convertible bond for stock NT\$34.209 million (Note 4)	None	None
12/2003	10	291,600,000	2,916,000,000	147,065,726	1,470,657,260	Convertible bond for stock NT\$35.448 million (Note 4)	None	None
03/2004	10	291,600,000	2,916,000,000	150,700,193	1,507,001,930	Convertible bond for stock NT\$36.345 million (Note 4)	None	None
07/2004	10	291,600,000	2,916,000,000	181,483,126	1,814,831,260	Retained earnings NT\$120.678 million, capital surplus NT\$59.1 million, convertible bond for stock NT\$9.17 million and merge NT\$118.881 million (Note 4, 7 and 9)	None	None

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
09/2004	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 million and exercise of stock options NT\$14.230 million (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 12)	None	None
09/2007	10	350,000,000	3,500,000,000	269,466,015	2,694,660,150	Convertible bond for stock NT\$22.337 million (Note 6)	None	None
12/2007	10	350,000,000	3,500,000,000	270,327,399	2,703,273,990	Convertible bond for stock NT\$8.614 million (Note 6)	None	None
03/2008	10	350,000,000	3,500,000,000	270,360,006	2,703,600,060	Convertible bond for stock NT\$0.326 million (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

Month / Year	Issue Price	Authorized Share Capital		Capital Stock		Remarks		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Others
08/2008	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 16)	None	None
08/2010	10	450,000,000	4,500,000,000	320,217,454	3,202,174,540	Cash NT\$330 million (Note 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 0980032787.

Note 15: Approval on May 28, 2010 and by FSC Ruling Chin-Kuan-Cheng 0990025827.

Note 16: Authorized share capital is the registered data in item card of Ministry of Economic Affairs, R.O.C.

4.1.1.2 Types of Stocks

Unit: Shares as of 04/12/2011

Type of Stocks	Authorized Share Capital			Note
	Outstanding Shares (Listed)	Unissued Shares	Total	
Common Stock	320,217,454	129,782,546	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: Shares as of 04/12/2011

Number \ Type	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Repurchase Stock	Total
Number of Shareholders	3	10	88	33,944	82	1	34,128
Shareholding	71	28,313,867	54,207,474	219,710,376	17,374,666	611,000	320,217,454
Holding Percentage	0.00%	8.84%	16.93%	68.61%	5.43%	0.19%	100.00%

4.1.3.Distribution Profile of Share Ownership

As of 04/12/2011

Shareholder Ownership	Number of Shareholders	Ownership	Ownership(%)
1-999	9,829	1,658,134	0.52%
1,000-5,000	17,213	37,415,192	11.69%
5,001-10,000	3,633	26,423,309	8.25%
10,001-15,000	1,371	16,498,802	5.15%
15,001-20,000	601	10,797,026	3.37%
20,001-30,000	589	14,459,106	4.52%
30,001-40,000	251	8,813,365	2.75%
40,001-50,000	149	6,834,837	2.13%
50,001-100,000	280	19,216,270	6.00%
100,001-200,000	108	14,850,635	4.64%
200,001-400,000	36	9,877,447	3.08%
400,001-600,000	14	6,738,915	2.10%
600,001-800,000	10	6,837,840	2.14%
800,001-1000,000	4	3,569,442	1.11%
Over 1,000,001	40	136,227,134	42.55%
Total	34,128	320,217,454	100.00%

4.1.4.Major Shareholders

As of 04/12/2011

Shareholders	Shares	Total Shares Owned	Ownership(%)
LUNG KO INVESTMENT CO., LTD.		15,611,439	4.88%
LIN TAN INVESTMENT CO., LTD.		14,707,623	4.59%
Jing-Rong Tang		11,592,549	3.62%
Nan Shan Life Insurance Co., Ltd.		11,427,762	3.57%
Shin Kong Life Insurance Co., Ltd.		6,102,270	1.91%
Trust Committee of CTCB authorized by Fang-Ming Lo		5,600,000	1.75%
Shih-Yun Sheng		4,445,567	1.39%
LUNG HSIN INVESTMENT CO., LTD.		3,688,021	1.15%
Mei-Yu Lin		3,533,995	1.10%
Gustav Van Der Gryp		3,148,751	0.98%

4.1.5. Market Price, Net Worth, Earnings, Dividends per Common Share, and Relevant Information during 2009 and 2010

Unit: Thousand of shares / NT\$

Item		Fiscal Year	2009	2010	01/01/2011 ~04/30/2011
Market price per share	Highest market price		47.40	54.50	38.60
	Lowest market price		17.50	33.95	30.65
	Average market price		30.49	42.45	36.30
Net worth per share	Before distribution		28.46	29.27	29.94(Note 5)
	After distribution		25.46	(Note 1)	-
Earnings per share	Weighted average shares		286,781	300,779	320,208
	Earnings per share		2.96	2.77	0.66
Dividends per share	Cash dividends		3.00	2.30 (Note 1)	-
	Stock dividends	From retained earnings	-	-	-
		From capital surplus	-	-	-
	Accumulated undistributed dividends		-	-	-
Returns on investment	Price / Earnings Ratio (Note 2)		10.30	15.32	-
	Price / Dividend Ratio (Note 3)		10.16	18.46(Note 1)	-
	Cash Dividend Yield (Note 4)		9.84%	5.42%(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.

Note 5: Net value from March 31, 2011.

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 a 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 ways of cash dividend and/or stock dividends taking into consideration the future capital demand and stock dilution. Stock dividends are to be within 0% to 50% of total dividends, while cash dividends are to be within 50% to 100% of total dividends.

4.1.6.2 Decided status of dividends allocation during 2009

- (1) On March 18, 2011, Holy Stone's Board of Directors approved a proposal for distribution of 2010 profits with a cash dividend of NT\$2.30 per share. After the approval of the Annual Shareholders' Meeting, the Board will decide on the distribution day.
- (2) The remaining cash dividends, rounded a whole digit up, will be allocated to the Employees' Welfare Committee of the Company.
- (3) Dividends allocation approved during the shareholders' meeting could be adjusted by the Board of Directors based on the Company's outstanding shares on the distribution date given that any changes in current outstanding shares cause the payout ratio to change. The Board will be authorized of executing the adjustment during the shareholders' meeting. Causes of changes in current outstanding shares include, but not limited to, 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 2011 Business Performance and EPS Resulting from Stock Dividend

Distribution: The Company proposed to allocate all dividends during 2010 in cash, so there is no impact to 2011 business performance and EPS.

4.1.8. Profit Distribution Segregation as Directors and Supervisors Compensation, and Employee Profit Sharing:

4.1.8.1. Profit distribution set aside as directors and 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 in the following order:

- (1) Income tax payment.
- (2) Accumulated deficits offset.
- (3) 10 percent to legal reserve after (1) and (2), except if amount in legal reserve exceeds paid-in capital.
- (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) Surplus after (1) to (5) is distributed as 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 2010 made by the Board and past distribution status, employees' bonus and directors' and supervisors' remuneration of 2010 are NT\$116,964 thousand and NT\$21,931 thousand respectively, 16 percent and 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 2011 Annual Shareholders' Meeting taking the ex-dividend effect into consideration.
- (3) The discrepancy between actual distribution of employee dividends and director/supervisor compensation and the proposed distribution shall be recognized on the 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 18, 2011, the Board approved for the distribution of NT\$117,000 thousand of employees' bonus and NT\$22,000 thousand of directors' and supervisors' remuneration, which will be paid in cash. The remainders of NT\$106 beneath a million 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 earnings: 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 2010 were still NT\$2.30 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 and Supervisors Compensation in 2009
- (1)The Company distributed NT\$119,005 thousand of employees' bonus, and NT\$22,313 thousand of directors' and supervisors' remuneration of 2009. Total shares of stock dividends were the 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\$786 thousand, which was recognized on the Statement of Income.

4.1.9. Buyback of Common Stock

As of 04/30/2011

Stage of Buy back	Fourth
Reason for Buy back	Distribution to employees
Period for Buy back	2011/03/21~2011/05/20
Buy back Price Range	28.00 ~ 48.00
Projected type and number of shares to Buy back	Common Stock 10,000,000 shares
Type and number of shares Bought back	Common Stock 611,000 shares
Amount of shares Bought back	NT\$22,025 thousand
Shares that would be Sold and Transferred	-
Cumulative number of shares of the Company	611,000 shares
Percentage of cumulative number of shares over Total Outstanding shares	0.19%
Reason for incomplete buyback past the declared Buy back period	Not applicable, Buy back period has not expired

4.2. Issuance of Corporate Bonds

1. Issuance of Corporate Bonds

As of 04/30/2011

Type of Corporate Bond		Third Domestic Unsecured Convertible Bond
Date of Issuance		2010/06/23
Par Value		Each bond has a par value of NT\$100,000
Issuing and Listing Location		Not applicable
Issuance Price		Full amount as indicated on each bond
Total Amount		NT\$700,000,000
Interest Rate		Annual rate of 0%
Term		Five years
Guarantor		None
Trustee		China Trust Commercial Bank Co., Ltd.
Underwriters		Mega Securities Co., Ltd.
Appointed Licensed Lawyer		Jung-Jie Wei
Appointed Licensed Accountant		Ching-Sung Wang and Chia-Hsin Chang
Reimbursement Method		The convertible bonds, at maturity, will be paid back in one time by the par value stated on the bond, except those converted to shares, redeemed before maturity, or sold by the bond bearer beforehand.
Amount Outstanding		NT\$700,000,000
Redemption Clauses		Refer to Article 18
Restrictive Covenants		None
Credit Rating Agency/ Date/ Rating		Not applicable
Convertibles	Amount Converted	NT\$0
	Issuance and Conversion Rules	Refer to Rules on Third Domestic Unsecured Convertible Corporate Bond Issuance and Conversion
Methods of Issuance, conversion, or warrant, impact to current shareholders' rights and potential dilution		EPS for 2010 and 2009 was \$2.77 and \$2.96 respectively; showing past financing activity did not have significant impact on equity value
Custodian		Not applicable

2. Information on Convertible Bonds

Type of Corporate Bond		Third Domestic Unsecured Convertible Bond	
Year		2010	2011/01/01~2011/04/30
Item			
Market Price of Convertible Bond	Highest	114.50	108.20
	Lowest	104.00	103.50
	Average	109.03	106.94
Convertible Price		NT\$39.80 since 2010/08/04	NT\$39.80
Issuance Date and Convertible Price during Issuance		Issued on 2010/06/23, with convertible price of NT\$43.50	
Method of Conversion		Issuing new stocks	

3. Information on Exchangeable Bonds: Not applicable.

4. Summary of Issuance of Corporate Bonds: Not applicable

5. Information on Warrants: Not Applicable

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 04/30/2011

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	0.47%	1.09%	3.12%
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\$33.70	NT\$41.00	NT\$38.00
Percentage of Shares Unexercised to Outstanding Common Shares (%)	0.47%	1.09%	3.12%
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 04/30/2011

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)	33.7	50,550	0.47%	
Vice Executive President	Shih-Yun Sheng			-	-	-	-	-	-	-	-	-
Vice President	Yu-Min Wu			-	-	-	-	-	-	-	-	-
Vice President	Shao-Kuo Huang			-	-	-	-	3,500 (Note 2)	41.0	143,500	1.09%	
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)	38.0	380,000	3.12%	
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

4.8.1. Up to the last quarter before the report's print date, the financial plans and implementation of capital increase, mergers, stock transfers or issuance of corporate bonds:

4.8.1.1. Financial Plan:

(1.) Securities and Futures Bureau's approval date and number: May 28, 2010 FSC Ruling No. 0990025827 and 09900258271.

(2.) Capital needed: NT\$2,155,921 thousand.

(3.) Source of Capital:

A. Issuance of 33 million new shares sold at premium, at NT\$34.00, each with par value of NT\$10.00. Capital increase projected to be NT\$1,122 million.

B. Issuance of third domestic unsecured convertible bond, each with par value of NT\$100,000 at a five-year term, interest rate 0% with maximum issuance of 7,000 bonds. Capital increase projected to be NT\$700 million.

C. Proceeds from bank loans – NT\$333.92 million for acquisition of plant by first quarter in 2010.

(4.) Financial Plans and Progress:

Unit: Thousands of NT\$

Plans	Estimate Completion	Total of Capital Needed	Progress of Capital Expenditure						
			2010				2011		2012
			Before 1Q	2Q	3Q	4Q	1Q	2Q	1Q
Repayments of Bank Loans	2010 Q2	660,000	0	660,000	0	0	0	0	0
Acquisition of Plant, Property & Equipment	2012 Q1	1,495,921	333,921	0	361,450	90,000	351,230	161,820	197,500
Total	2012 Q1	2,155,921	333,921	660,000	361,450	90,000	351,230	161,820	197,500

4.8.1.2. Implementation Status

Unit: Thousands of NT\$

	Implementation Status	Up to 2011 1Q	Implementation Status		Reasons of behind/ ahead of schedule and improvement plans
Repayments of Bank Loans	Capital Expensed	Projected	660,000	100%	Completed on schedule.
		Actual	660,000	100%	
Acquisition of Plant, Property & Equipment	Capital Expensed	Projected	1,136,601	76%	The transfer of SMD conductive polymer tantalum capacitors was behind schedule due to the need of coordination between acquiring equipments and transferring technology to prevent wasted utility. Although orders have been placed for MLCC equipments, delivery dates have been delayed. Another factor is that customers' approval for thermal ceramic substrates were postponed, consequently causing purchases of machineries to be pushed back .
		Actual	733,485	49%	
Total	Capital Expensed	Projected	1,796,601	83%	
		Actual	1,393,485	65%	

4.8.1.3. Evaluation of benefits

Unit: Thousands of NT\$

	2009	2010	Increase (Decrease) in Capital	Increase (Decrease) Percentage
Current Assets	6,605,074	7,617,008	1,011,934	15.32%
Long-term Assets	2,343,154	2,607,537	264,383	11.28%
Current Liabilities	2,560,709	2,955,069	394,360	15.40%
Total Liabilities	3,633,874	3,893,028	259,154	7.13%
Revenue	11,105,929	12,680,726	1,574,797	14.18%
Cost of Goods Sold	9,670,450	11,199,055	1,528,605	15.81%
Operating Profit	761,308	707,888	(53,420)	(7.02%)
Interest Expense	15,750	19,753	4,003	25.42%
EPS (NT\$)	2.96	2.77	(0.19)	(6.42%)

Interest expense grew between 2009 to 2010, caused by the amortization of discount bonds.

4.8.1.4. Declaration date required by Securities and Futures Bureau:

May 28, 2010.

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 in businesses which are 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	33.25%
Active Components	20.09%
System & Module	19.42%
Other Components	27.24%
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 to develop

Holy Stone plans to:

- (1) Continue to develop BME medium-high capacitance series products.
- (2) Continue to develop MLCCs for LED and power supply applications.
- (3) Continue to develop filter capacitors for military and industrial applications.
- (4) Develop polymer tantalum capacitors.
- (5) Develop ALN substrate/ ALN thin film process.

5.1.2. Industry Overview

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

According to data updated in April, the International Monetary Fund (IMF) stated 2011 global GDP as 4.4 percent. Despite high unemployment rates in developed economies, debt concerns in European countries, tight monetary policies in developing markets, and inflation risks of oil and commodity prices, economic recovery is still on the rise. In April, the Asian Development Bank (ADB) predicted 2011 GDP for Taiwan to be 4.8 percent, showing the demand for electronic goods continues to stimulate the export growth in Taiwan. However, there are still foreseeable risks that impacts the electronics industry such as oil and commodity prices, China's growth slowing down, and the earthquake in northeastern Japan.

The portfolio of Holy Stone's products is segmented into four groups, and the description on each segment goes as follows:

Passive components industry: Passive components include resistors, capacitors and inductors. Since these components are widely used in consumer and industrial electronic products (computer, mobile phone, network equipment, television, digital camera, power supply, automotives, etc.), the demand is similar to that of end-user markets. In 2010, economic recovery, along with the rise of customer demand and sufficient stock supply, drives growth in this industry. In 2011, with the launch of new products (e.g. tablet PCs) and continuous development of existing products (e.g. smart phones), the passive components industry is expected to maintain growth.

Development among passive components involves product specification, price and quality. Manufacturers invest heavily in materials R&D, packaging technology, and production process to enhance its competitiveness. For decades, Japanese manufacturers have been the leaders in passive components industry. Holy Stone, with years of contribution, possess our own place within the industry. We continue to operate in niche markets, manufacturing high pressure, safe, and special MLCC and tantalum capacitors, while distributing aluminum capacitors from Japanese suppliers.

Active components industry: The Company distributes a variety of semiconductor components, with telecommunication and network IC as the main products. In the year 2010, according to the International Data Corporation, semiconductors industry have been recovering with annual growth rate of 23 percent. Growth rate in 2011 is projected to ease to 9 percent. Although communication components for white-label mobile phones in China have faced challenges regarding price wars, IDC estimates semiconductors industry for telecommunications in 2011 will have a 9 percent growth, with a compound annual growth rate of 5 percent from 2010 to 2015. This is mainly due to strong growth in smart phones, increase capital expenditures by telecommunication carriers to meet bandwidth demands, and continuous development of digital home appliances. IC distribution industry will also grow with the global semiconductors industry.

System and Module Industry: Product lines in this segment are distributed IC (e.g. MCU) with add-on value. Microcontrollers (MCUs) are the main products, including 8-bit, 16-bit, and 32-bit, with applications in automotives, industrial, home appliances, consumer electronics, computer peripherals, and medical electronics markets. According to *Databeans*, about 80 percent of MCUs are used in automotives and industrial markets. Moreover, in 2011, the MCU market could reach US\$16 billion with compound annual growth rate of 9 percent for the next five years. 8-bit MCUs, with advantages in conducting simple commands and competitive costs, still have a share in the market even though 32-bit MCUs have declining costs and an expanding market. And as green energy becomes popular, a clock frequency controller within 8-bit MCUs have become a required component.

Other components industry: Other than manufacturing passive components, Holy Stone also distributes a number of other electronic components. According to Industrial Economics & Knowledge Center (IEK), 2010 growth rate for electronic components reached 13 percent, with 2011 estimate of 11 percent. Global growth will be driven mainly by smart phones, internet TV, and other smart and green consumer products, which all constitute to the significant growth of 38 percent for LED components.

Holy Stone has diverse product lines, with our customers spread among information, telecommunication, consumer electronics, automotives and industrial components markets. Vendors of Holy Stone's self-manufactured passive components products supplies ceramic powder, internal and external electrodes, tantalum powder, etc. Holy Stone distributes products of international companies (e.g. Skyworks, Microchip, Panasonic). Our main competitors are international passive components manufacturers for the passive components products, and domestic and foreign IC distributors for all sorts of components products in distribution.

5.1.3. Commitment to Research and Development

5.1.3.1 R&D expenditures during 2010 and up to the date of this Annual Report

Unit: Thousands of NT\$

Item	2010	Up to April 30, 2011
R&D expenditures	117,618	35,293
Net sales	12,680,725	4,579,054
Percentage	0.93%	0.77%

5.1.3.2 Successful development of manufacturing services and technologies

While the Company continues to develop medium and high capacitance MLCC, we are also focused on developing power supply, LED, special military applications capacitors. Furthermore, completion is near for developing self-manufactured materials and related technology, as well as AL203 fine pith thin film production technology.

5.1.4. Short-term and Long-term Development Strategies

5.1.4.1 Promotion Strategies

(1) Short-term

- A. Offer more suitable products to cope with changing customer demands.
- B. Expand customer base in the market of LED power capacitors.
- C. Continue to develop specialty products such as those for military applications.

(2) Long-term

- A. Maintain solid partnership with customers.
- B. Strengthen technology and competency in new market expansion by means of location-based service.
- C. Strengthen and deepen penetration in China, through good customer service and customized products to meet customers' needs, and increase components' added value.
- D. Strengthen distribution network in China to extend selling base.

5.1.4.2 Production Policies

(1) Short-term

- A. Increase MLCC production efficiency and lower costs.
- B. Increase production ratio for LED power capacitors
- C. Complete the expansion of polymer tantalum capacitors product line in LiTzer factory.

(2) Long-term

- A. Raise competitiveness by increasing efficiency and improving production process.
- B. Cultivate outstanding employees to maintain R&D performance.

5.2. Market and Sales Overview

5.2.1. Market Analysis

5.2.1.1 Sales by geographical area

The Company sells products to customers in telecommunications, information, consumer products, automotives and industrial electronics markets. We continue to target American and European markets to increase exporting capacity.

Sales Ratio by geographic area in 2010 and 2009

Unit: Thousands of NT\$

Year Area		2009		2010	
		Gross Sales	Percentage	Gross Sales	Percentage
Domestic		2,085,350	18.78%	4,514,845	35.60%
Export	Asia	8,839,143	79.59%	7,913,259	62.40%
	Americas	112,372	1.01%	144,592	1.14%
	Europe	67,915	0.61%	105,874	0.84%
	Others	1,149	0.01%	2,155	0.02%
Total		11,105,929	100.00%	12,680,725	100.00%

5.2.1.2 Market share

The Company's main products are capacitors, active components, and System & Modules. Net sales totaled NT\$12,680,725 thousand in 2010. Those main products take significant shares 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 telecommunications, information, consumer products, automotives and industrial electronics markets, and end products includes PC, mobile phone, networks, automotive electronics, power supply, consumer electronics, home appliances, industrial equipments and so on. Figures in the following chart are the forecasted growth in shipments made by international research institutions.

Product	2010	2011 (F)
Desktop Computer	16.0%	3.0%
Notebook	20.2%	12.0%
All PCs	14.3%	10.5%
Tablet PC	-	181%
Smart Phone	74.4%	49.2%
White-Label cell phone	57.2%	11.8%
Regular Handset	3.4%	(5.0%)
All Handsets	10.6%	6.9%
Consumer Electronics	4.0%	2.6%

Source: Gartner, HIS iSuppli, IDC, Digitimes

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

Passive components: Holy Stone's main product in passive components is capacitors, including production of MLCC, tantalum capacitors and distribution of aluminum capacitors. Among capacitors, MLCC is the dominant product among those that are manufactured in-house. Market leaders in shares and in technology for MLCC are Japanese and Korean manufacturers. In 2010

and moving to 2011, manufacturers have expanded production for MLCC, resulting in a more balanced supply and demand market. In 2011, a number of factors, including—increase in sales of notebooks, smartphones, televisions, digital cameras; performance improvements in smart phones, increase in penetration of LED TV, and rise in demand for new products such as tablet PC and LED light that requires high capacitance and high voltage—all stimulate demand for MLCC. On the other hand, Holy Stone, supplying products to niche MLCC markets (such as for aerospace and military applications), faces steady demand since there are relatively few suppliers. The Company will be actively expanding our market share.

Since April 2010, Holy Stone started manufacturing tantalum capacitors mainly to customers in Japan and the U.S. Compared to a capacitor with different dielectric (e.g. aluminum capacitor, MLCC), tantalum capacitor has high charge and discharge ability for its small volume. Its other advantages include no noise, high stability and reliability. As electronic components trend to shrink in size, tantalum capacitors become irreplaceable in the market. It is widely used in computers, mobile phones, communication equipments, digital cameras, game consoles, automotive equipments, etc. With the demand for tantalum capacitors skyrocketing due to expanding markets such as smart phones and tablet PCs, Holy Stone will capture more share and strive to provide customer satisfaction through superior production techniques and full R&D capabilities.

Active components: Holy Stone distributes active components such as power amplifiers, switches, diodes mostly used in network and mobile phone markets. For the network market, wide deployment of wireless networks, development of electronics, popularization of products having wireless function, all help the growth of WLAN in 2011. According to *HIS iSuppli*, global WLAN chips is estimated to multiply in 2011. Other than network equipments, digital home appliances and other electronic products carrying WLAN (notebook, mobile phone, tablet PC, all-in-one machines, GPS, etc.) will contribute to the collective growth of the network market. Also, although the white-label mobile phones market in China alleviates under the effects of intense competition and governmental restrictions, other emerging countries will help boost the market growth by 11.8 percent in 2011. Moreover, smart phones will be the dominant growth factor of the entire mobile phone industry with estimated growth of 49.2 percent.

System & Module: As the link between the internet and consumer and industrial products becomes stronger, and products trend towards being green, automotive, and smart, MCU markets for applications in automotive control, smart home appliances and LED expand vigorously. Developing countries in Asia Pacific contributes to the most growth for MCUs, especially the Chinese automotives market; the Chinese government estimates automotive electronics market to reach US\$50 billion in 2011. The rise in economy will stimulate demand for middle- to high-end automobiles, and in turn, affect the demand for semiconductors. The Company has set up branch offices in major cities off the coast and inland of China to support customers and fulfill their needs with the development of white-labeled home appliances and other consumer electronics.

Other components: The Company distributes components of informative application such as ODD, batteries, switches and fans, and also manufactures ceramic substrates that are mostly applied in high efficiency LED lightings. The abovementioned products being distributed are used in

computers, mobile phones and consumer electronics, therefore, the growth of 2011 relies heavily on advanced notebooks, smart phones, smart networks, etc. Although price and quality constraints the penetration of the market, LED lighting has become a mainstream product with improvements on luminous efficiency, reduction in packaging costs, trends towards thinking green, governmental subsidies and the prohibition of incandescent bulbs. Data from *Strategies Unlimited* estimates there will be a 22 percent CAGR in the LED lighting market from 2010 to 2014, with LED home appliances as the fastest growing segment. *DisplaySearch* also estimates LED lighting market to grow by 24 percent in 2011.

5.2.1.4 Core competence, advantages and disadvantages of future prospects and responsive strategies

(1) Core competence and Advantages

- A. Penetrative sales channels and complete promotion services.
- B. Owns the technologies of developing high voltage, high capacitance, and special capacitors.
- C. Owns 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 responsive strategies

A. Major materials rely on importing

Responsive strategies:

- (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 raw materials shortage.

B. Increasingly severe market competition

Responsive strategies:

- (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 great variation in the market.

Responsive strategies:

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

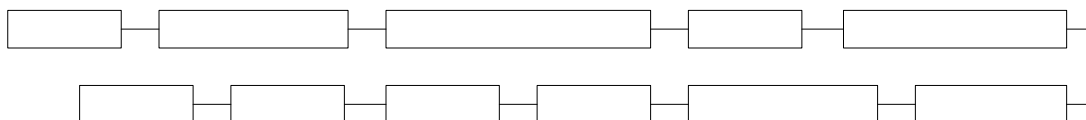
5.2.2. Application of Major Products and its Production Process

5.2.2.1 Major products and its application

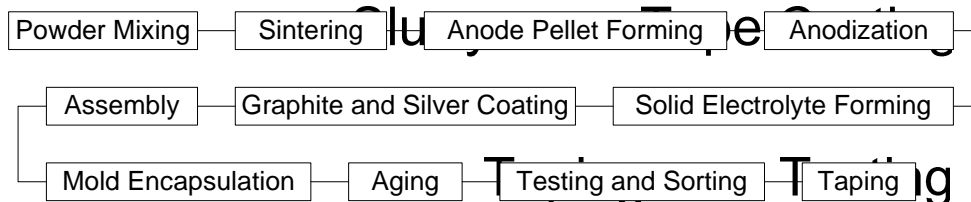
Capacitors are basic components to 3C electronics. In the computer electronic industry, capacitors are applied to motherboard, VCG card, sound card, CD/DVD ROM, and so on. In the communication electronics industry, they are applied to mobile phone, fax machine, digital internet service, modem, and so 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

Surface-mounted MLCC



Polymer tantalum capacitor



Printing

Plating

5.2.3. Suppliers of Major Materials

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

Types 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 2009-2010

5.2.4.1 Major suppliers list

Unit: Thousands of NT\$/ %

Item	2009				2010				First quarter of 2011			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	D	2,534,945	28.67	None	A	3,164,362	28.26	None	A	856,309	33.89	None
2	A	1,971,010	22.30	None	D	2,089,871	18.66	None	B	355,911	14.09	None
3	B	1,283,837	14.52	None	B	1,973,517	17.62	None	F	272,106	10.77	None
4	C	595,937	6.74	None	E	466,044	4.16	None	D	140,376	5.56	None
	Others	2,454,212	27.77	—	Others	3,505,133	31.30	—	Others	901,762	35.69	—
	Total	8,839,941	100.00	—	Total	11,198,927	100.00	—	Total	2,526,464	100.00	—

5.2.4.2 Major customers list

Unit: Thousands of NT\$/ %

Item	2009				2010				First quarter of 2011			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	c	1,104,074	9.94	None	c	1,705,904	13.45	None	c	692,786	20.43	None
	Others	10,001,855	90.06	—	Others	10,974,821	86.55	—	Others	2,697,914	79.57	—
	Total	11,105,929	100.00	—	Total	12,680,725	100.00	—	Total	3,390,700	100.00	—

5.2.5. Production Quantity & Value Table 2009-2010

Unit: KPCS/ Thousands of NT\$

Year	2009			2010		
	Capacity	Production Quantity	Production Value	Capacity	Production Quantity	Production Value
Capacitor	17,000,000	8,194,334	1,566,287	17,000,000	9,460,577	1,973,345

5.2.6. Sales Quantity & Value Table 2009-2010

Unit: KPCS/ Thousands of NT\$

Items & Amount	2009				2010			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Passive Components	3,374,921	878,858	6,727,904	2,704,780	3,901,510	1,482,017	6,544,262	2,734,526
Active Components	33,248	369,994	447,809	3,013,630	73,778	659,400	407,084	1,888,223
System & Modules	26,746	641,625	67,806	1,475,273	37,907	924,177	91,407	1,538,947
Others	30,168	194,873	136,739	1,826,896	272,042	1,449,251	134,350	2,004,184
Total	3,465,083	2,085,350	7,380,258	9,020,579	4,285,237	4,514,845	7,177,103	8,165,880

5.3. Employee Analysis

Year		2009	2010	As of April 30, 2011
Number of Employees	Direct Employees	338	382	381
	Indirect Employees	442	472	472
	Total	780	854	853
Average Age		34.15	34.35	34.66
Average Years of Employment		5.20	5.33	5.45
Level of Education (%)	Ph.D.	0.38	0.23	0.12
	Master's Degree	5.63	6.56	6.68
	Bachelor's & Associate Degree	53.46	53.63	53.34
	Senior High School	37.72	37.00	37.16
	Others	2.81	2.58	2.70

5.4. Environmental Awareness

As of the date of this Annual Report, the total amount of loss and disciplinary action from environmental pollution is as follows, along with the description of future responsive strategies and possible expenditures.

5.4.1. Total Loss and Fine for Environmental Pollution for the Two Most Recent Fiscal Years and as of the Date of This Annual Report.

Total loss and fines of the Company for environmental pollution during 2009-2010 and as of the date of this annual report were small and insignificant, and the Company has made improvements.

5.4.2. Measures and Improvements to Be Made in the Future.

5.4.2.1 Continue to exercise environmental protection policies:

Comply with legal requirements and take social corporate responsibility; establish green company and develop green products; protect environment and reduce processed waste; continue to improve environment and prevent environmental pollution; exercise environmental education and foster quality life.

5.4.2.2 Disposal of waste: The Company entrusts a certified waste management organization to process waste and disposals, so there is no environmental pollution made by the Company.

5.4.2.3 Disposal of polluted water: The Company not only conducts a periodic examination on the disposal of polluted water but also renews 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\$2 million and NT\$8 million each in pollution prevention equipment to clean waste water and exhaust gas.

5.4.2.6 The Company is attentive to environmental protection. It not only hires designated people to supervise, but also improve its software and hardware facilities. Currently, the Company is in conformity to government regulation; therefore, it has limited influence on the Company's net income and competitiveness.

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

5.4.3. Expenditures on 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	\$	10,000
2	Testing fees for exhaust gas		900
3	Testing fees for polluted water emission		60
4	Disposal fees for polluted water		11,705
5	Disposal fees for waste		14,238
6	Environmental testing fees		360
7	Replacement fees for consumptive materials from exhaust gas		15,977
8	Others		8,430
		\$	<u><u>61,670</u></u>

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, and so on.

5.5.1.2 Employee Welfare Committee: The Company provides wedding/funeral/bearing/hospitalization and celebration financial aids; holds art and cultural seminars and employee outings to strengthen 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 resources 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, labor and management are able to exercise their talents. Therefore, the relationship between labor and management plays an important role for the Company at all times. As of today, there is no dispute between labors and management.

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

5.6. Major Contracts

March 31, 2011

Contract Classification	Company Name	Contract Duration	Main Contents	Term Limits
Distributorship and Agent Agreement	HITACHI	2011.04.01-2012.03.31	Capacitor	None
Distributorship and Agent Agreement	SKYWORKS	2011.10.01-2012.09.30	IC	None
Distributorship and Agent Agreement	MICROCHIP	2011.04.01-2012.03.31	IC	None

6. Financial Highlights

6.1. Condensed Balance Sheet and Condensed Income Statement

6.1.1. Condensed Balance Sheet

Unit: Thousands of NT\$

Year Item		Financial Information from 2006 to 2010 (Note 1)					As of March 31, 2010 (Note 1)
		2006	2007	2008	2009	2010	
Current assets		6,246,764	6,652,362	6,220,731	6,605,074	7,617,009	7,926,445
Funds and long-term investments		1,323,272	1,337,425	2,154,860	2,853,091	3,040,842	3,088,814
Property, plant and equipment		1,836,097	2,065,992	2,344,605	2,343,154	2,607,536	2,620,329
Other assets		21,611	6,855	7,028	6,197	1,938	2,034
Total assets		9,427,744	10,062,634	10,727,224	11,807,516	13,267,325	13,637,622
Current liabilities	Before distribution	2,633,161	2,525,342	2,270,835	2,560,709	2,955,069	3,142,724
	After distribution	3,410,425	3,400,895	2,719,868	3,422,361	(Note 2)	(Note 2)
Long-term liabilities		-	-	1,137,250	1,016,833	881,364	846,910
Other liabilities		9,931	6,714	13,012	56,332	56,596	60,554
Total liabilities	Before distribution	2,643,092	2,532,056	3,421,097	3,633,874	3,893,029	4,050,188
	After distribution	3,420,356	3,407,609	3,870,130	4,495,526	(Note 2)	(Note 2)
Capital stock		2,459,742	2,703,274	2,806,456	2,872,175	3,202,175	3,202,175
Capital surplus		2,546,528	2,747,093	2,741,791	2,763,032	3,652,343	3,649,985
Retained earnings	Before distribution	1,732,755	2,005,372	1,720,779	2,065,228	2,035,809	2,247,167
	After distribution	816,365	1,046,282	1,271,746	1,203,576	(Note 2)	(Note 2)
Unrealized gain or loss on financial instruments		56,808	83,013	(29,569)	454,949	528,873	547,265
Cumulative translation adjustments		2,776	6,394	73,076	34,041	(24,681)	(16,910)
Treasury stock		(13,957)	(14,568)	-	-	-	(22,025)
Total stockholders' equity	Before distribution	6,784,652	7,530,578	7,306,127	8,173,642	9,374,296	9,587,434
	After distribution	6,007,388	6,655,023	6,857,094	7,311,990	(Note 2)	(Note 2)

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2011 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: Thousands of NT\$

Item	Year	Financial Information from 2006 to 2010 (Note 1)					As of March 31, 2011 (Note 1)
		2006	2007	2008	2009	2010	
Net sales		11,976,282	13,165,645	12,777,454	11,105,929	12,680,725	3,390,700
Gross profit		2,039,439	2,158,679	1,439,615	1,435,479	1,481,670	314,222
Operating income		1,445,871	1,495,071	693,376	761,308	713,286	136,967
Non-operating income and gains		86,362	118,497	270,842	320,491	371,945	133,158
Non-operating expenses and losses		116,473	139,210	149,874	46,746	114,540	(23,971)
Income before income tax from continuing operations		1,415,760	1,474,358	814,344	1,035,053	970,691	246,154
Net income from continuing operations		1,139,269	1,189,007	674,497	849,611	832,234	211,358
Income from discontinued department		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		1,139,269	1,189,007	674,497	849,611	832,234	211,358
Earnings per share (NT\$) (Note 2)		4.44	4.31	2.36	2.96	2.77	0.66

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2011 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 2006 to 2010

Year	Accounting Firm	CPA	Audit Opinion
2006	KPMG	Ching-Sung Wang and Heng-Sheng Lin	A Modified Unqualified Opinion
2007	KPMG	Ching-Sung Wang and Heng-Sheng Lin	A Modified Unqualified Opinion
2008	KPMG	Ching-Sung Wang and Chia-Hsin Chang	A Modified Unqualified Opinion
2009	KPMG	Ching-Sung Wang and Chia-Hsin Chang	A Modified Unqualified Opinion
2010	KPMG	Ching-Sung Wang and Chia-Hsin Chang	A Modified Unqualified Opinion

6.2. Financial Analysis

Item (Note 2)		Year					As of March 31, 2011 (Note 1)	
		Financial Analysis from 2005 to 2009 (Note 1)						
		2006	2007	2008	2009	2010		
Capital Structure Analysis (%)	Debt Ratio	29.52	25.16	31.89	30.78	29.34	29.70	
	Long-term Fund to Fixed Assets Ratio	369.52	364.50	360.12	392.23	393.31	398.21	
Liquidity Analysis %	Current ratio	227.61	263.42	273.94	257.94	257.76	252.22	
	Quick Ratio	174.14	197.24	200.23	202.03	186.85	197.86	
	Times Interest Earned	41.30	37.52	22.35	66.72	50.14	45.95	
Operating Performance Analysis	Average Collection Turnover (Times)	3.72	3.89	4.02	3.85	4.12	3.96	
	Days Sales Outstanding	98	94	91	95	89	92	
	Average Inventory Turnover (Times)	7.49	6.99	6.86	6.26	6.37	6.52	
	Average Payment Turnover (Times)	8.20	9.53	10.34	9.25	9.04	9.58	
	Average Inventory Turnover Days	49	52	53	58	57	56	
	Fixed Asset Turnover (Times)	6.68	6.75	5.79	4.74	5.12	5.19	
	Total Asset Turnover (Times)	1.24	1.31	1.19	0.94	0.96	0.99	
Profitability Analysis	Return on Total Assets (%)	12.77	12.54	6.66	7.66	6.77	6.42	
	Return on Equity (%)	18.61	16.61	9.09	10.98	9.49	8.92	
	To Paid-in Capital Ratio (%)	Operating Income	58.78	55.31	24.71	26.51	22.11	17.11
		Income before income tax	57.56	54.54	29.02	36.04	30.31	30.75
	Net Margin (%)	9.51	9.03	5.28	7.65	6.56	6.23	
	Earnings Per Share (NT\$) (2)	4.44	4.31	2.36	2.96	2.77	0.66	
Cash Flow (%)	Cash Flow Ratio (%)	48.18	46.81	51.54	52.46	2.49	3.61	
	Cash Flow Adequacy Ratio (%)	85.22	91.05	94.56	118.08	69.63	54.09	
	Cash Flow Reinvestment Ratio (%)	10.66	5.38	3.82	8.44	(7.00)	(5.42)	
Leverage	Operating Leverage	1.00	1.01	0.98	0.98	1.00	0.98	
	Financial Leverage	1.02	1.03	1.03	1.02	1.03	1.04	

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2011 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 judgment.

6.3. Supervisors' Report

Holy Stone Enterprise Co., Ltd. Supervisors' Report

The Board of Directors has prepared the Company's 2010 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, 2011

Supervisor: Tang-Ming Wu

Chung-Yi Yang

Ken-Yi Cheng

March 22, 2010

- 6.4. Financial Report of 2010:** Please refer to P.67 to P.111 in this report.
- 6.5. Consolidated Financial Report of 2010:** Please refer to P.112 to P.159 in this report.
- 6.6. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2010 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: Thousands of NT\$

Item	Year	2010	2009	Difference	
				Amount	%
Current asset		7,617,009	6,605,074	1,011,935	15.32
Long-term investment		3,040,842	2,853,091	187,751	6.58
Property, plant and equipment		2,607,536	2,343,154	264,382	11.28
Other assets		1,938	6,197	(4,259)	(68.73)
Total assets		13,267,325	11,807,516	1,459,809	12.36
Current liabilities		2,955,069	2,560,709	394,360	15.40
Long-term liabilities		881,364	1,016,833	(135,469)	(13.32)
Other liabilities		56,596	56,332	264	0.47
Total liabilities		3,893,029	3,633,874	259,155	7.13
Capital stock		3,202,175	2,872,175	330,000	11.49
Capital surplus		3,652,343	2,763,032	889,311	32.19
Retained earnings		2,035,809	2,065,228	(29,419)	(1.42)
Unrealized gain or loss on financial instruments		528,873	454,949	73,924	16.25
Cumulative translation adjustments		(24,681)	34,041	(58,722)	(172.50)
Total shareholders' equity		9,374,296	8,173,642	1,200,654	14.69
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) :					
(1) An increase of NT\$889,311 thousand in capital surplus: Increased cash capital					
(2) A decrease of NT\$58,722 thousand in cumulative translation adjustments: Due to changes in foreign currency exchange rate in subsidiaries.					

7.2. Operating Results

7.2.1. Operating Results Analysis Table

Unit: Thousands of NT\$

Item	Year	2010	2009	Difference	
				Amount	%
Net sales		12,680,725	11,105,929	1,574,796	14.18
Cost of goods sold		(11,199,055)	(9,670,450)	(1,528,605)	15.81
Gross profit		1,481,670	1,435,479	46,191	3.22
Unrealized gross profit from affiliates		2,699	12,063	(9,364)	(77.63)
Realized gross profit		1,484,369	1,447,542	36,827	2.54
Operating expenses		(771,083)	(686,234)	(84,849)	12.36
Operating income		713,286	761,308	(48,022)	(6.31)
Non-operating income and gains		371,945	320,491	51,454	16.05
Non-operating expenses and losses		(114,540)	(46,746)	(67,794)	145.03
Income before income tax from continuing operations		970,691	1,035,053	(64,362)	(6.22)
Income tax expenses		(138,457)	(185,442)	46,985	(25.34)
Net Income from continuing operations		832,234	849,611	(17,377)	(2.05)
Note 1: Analysis of significant changes between 2009 and 2010 (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000):					
(1) A decrease of NT\$67,794 thousand in non-operating expenses and losses: Loss in foreign currency exchange.					
(2) An increase of NT\$46,985 thousand in income tax expense: Income Tax Law amendment in Business Enterprise income tax rate.					
Note 2: Probable impact on company's financial business: No significant impacts.					
Note 3: Sales quantity forecast and related information : Not applicable.					

7.3. Cash Flow

Analysis of Cash Flow

Unit: Thousands of NT\$

Beginning cash balance	Net cash provided by operating activities in 2010	Net cash outflow in 2010	Ending cash balance	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
1,616,573	73,588	(45,672)	1,644,489	-	-
<p>1. Analysis of cash flow:</p> <p>(1) Net cash provided by operating activities: Result from increases in net income.</p> <p>(2) Net cash outflow in 2010: Mainly result 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: Net cash outflow in investing activities results from the acquisition of machinery and equipment and the increase of long-term investment.</p> <p>b. Net cash provided by financing activities: Net cash inflow in financing activities results from increase in cash capital and bond issuance, while outflow results from paying loans and cash dividends.</p> <p>2. Analysis of liquidity:</p> <p>A decrease of NT\$1,267,780 thousand in net cash provided by operating activities in 2010 on a year-over-year basis.</p> <p>Cash flow ratio: 2.49%. Cash adequacy ratio: 69.63%. Cash reinvestment ratio: (7.00%).</p> <p>3. Cash flow projection for next year:</p>					
				Remedy for Cash Shortfall	
Beginning cash balance	Expected net cash provided by operating activities	Expected net cash outflow of the year	Expected ending cash balance	Investment Plan	Financing Plan
1,644,489	381,215	(974,066)	1,051,638	-	-

7.4. Major Capital Expenditure

7.4.1. Major Capital Expenditure and Sources of Funding

Unit: Thousands of NT\$

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

1. Strengthen financial structure, reduce cash outflow for interest expense.
2. Acquisition of property, plant, and equipment based on the needs of operation expansion will drive future operating growth.

7.5. Investments Exceeding 10% of Company's Paid-in Capital in 2010

Item	Amount (Thousands of NT\$)	Policy	Root Cause of Profit or Loss	Improvement Action	Investment Plans
Holy Stone Holdings Co., Ltd.	NT\$67,754	Invested to enter into other industry.	The investee companies have made profits.	-	Assessing the necessity of increasing investment considering operating scale.
RONG JHAN INVESTMENT CO., LTD.	NT\$53,682	Invested to enter into other industry.	The investee companies have made profits.	-	Assessing the necessity of increasing investment considering operating scale.

Note: The investment amount of the year exceeds 10% of the capital collected.

7.6. Risk Management

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

Holy Stone's interest expense and loss on foreign exchange in 2010 and as of printed date of this Annual Report:

Unit: NT\$ thousands

Item	2010	As of Apr. 30, 2011
Interest Expense	19,753	7,481
Gain on Foreign Exchange	94,416	20,845

Source: Financial statement of 2010 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 0.16% of net sales in 2010 and as of Apr. 30, 2011; therefore, interest rate fluctuation has limited influence on the Company's net income. Holy Stone hedges its foreign exchange exposure mainly through hedging 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 hedging foreign exchange risk:

- (1) Forecast foreign exchange rates trend and purchase or sell foreign currencies in advance by currency forward contracts.
- (2) Increase 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) Purchase department purchases from suppliers on a weak currency basis.
- (4) Consult 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 2010. The Company's Endorsement & Guarantee were NT\$231,100 thousand and NT\$197,500 thousand on December 31, 2010 and as of the printed date of this annual report, respectively; the Company's loaning of funds were NT\$0 and NT\$0 on December 31, 2010 and as of the printed date of this annual report, respectively—less than the maximum amount regulated by the Company's "Procedures governing loaning of funds" and "Endorsement & Guarantee Procedures".

7.6.2.2 Make derivatives transactions by contracting foreign exchange options and sell 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" and "Procedures for Lending Funds to Other Parties."

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' requirements 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 2010. The Company will continue to acquire relevant information and make essential measures in time to satisfy company's operating demand.

7.6.5. Impact on corporate finance associated with changes in technology

The Company will maintain high sensitivity 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 2010 and as of the date of this Annual Report, the Company had no such risk. The Company will assess benefits from any plans to 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 2010 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 2010 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 litigation during 2009-2010, and as of the date of this Annual Report.

7.6.13.Other Material Risks

During 2010 and as of the date of this Annual Report, the Company's management is not aware of any other risks with potentially material impact on the Company.

7.7. Other vital items: None.

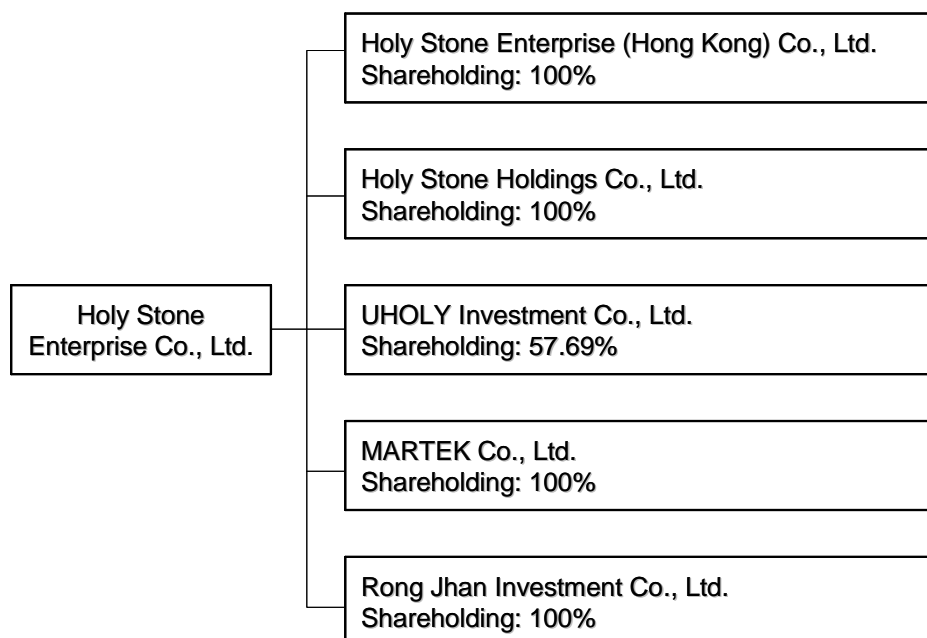
8. Special Notes

8.1. Affiliates

8.1.1. Affiliates Consolidated Operating Report

8.1.1.1 Holy Stone affiliated companies chart

As of 12/31/2010



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
MARTEK CO., LTD.	2008.02	6F.-1, No. 17, Ln. 91, Sec. 1, Neihu District, Taipei City, Taiwan	NTD\$ 85,000,000	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\$ 400,000,000	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 12/31/2010

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%
MARTEK CO., LTD.	Director	Representative of Holy Stone: Jen-Shing Lee, Jing-Rong Tang and Fang-Ming Lo	85,000,000/ 8,500,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	85,000,000/ 8,500,000	100%
RONG JHAN INVESTMENT CO., LTD.	Director	Representative of Holy Stone: Jing-Rong Tang, Fang-Ming Lo and Shih-Yun Sheng	400,000,000/ 40,000,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	400,000,000/ 40,000,000	100%

8.1.2. Operational Highlights of Holy Stone Affiliated Companies

Unit: Thousands of NT\$

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	707,587	546,590	160,997	1,302,167	14,434	15,973	1.39
Holy Stone Holdings Co., Ltd. (Note 2)	841,951	1,983,006	1,069,687	913,319	2,674,784	67,168	74,660	2.77
UHOLY INVESTMENT CO., LTD. (Note 2)	390,000	1,213,816	45,536	1,168,281	91,742	(22,905)	(24,961)	(0.64)
RONG JHAN INVESTMENT CO., LTD. (Note 2)	400,000	836,599	210,068	626,532	685,229	91,956	75,067	1.88
MARTEK CO., LTD. (Note 2)	85,000	230,063	73,662	156,401	434,303	82,144	61,263	7.21

Note 1: Foreign exchange rates were NT\$29.13 and NT\$31.518 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 2010 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 2010 and as of the Date of this Annual Report

None.

8.4. Other Necessary Supplement: None.

8.5. Any Events in 2010 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, 2010 and 2009, 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, 2010 and 2009, the long-term equity investment amounts accounted for under equity method were NT\$1,476,536 thousand and NT\$1,318,084 thousand; the cumulative translation adjustments were (NT\$20,913) thousand and (NT\$5,241) thousand, and the related net investment gains of NT\$126,099 thousand and NT\$154,610 thousand for the year ended December 31, 2010 and 2009. 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, 2010 and 2009, 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, 2010 and 2009, and have expressed an unqualified opinion on the consolidated financial statements.

Taipei, Taiwan
Republic of China

March 3, 2011

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

Balance Sheets

December 31, 2010 and 2009

(Expressed in Thousands of New Taiwan Dollars)

	12.31.2010		12.31.2009			12.31.2010		12.31.2009	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and stockholders' equity				
Current assets:					Current liabilities:				
Cash and cash equivalents (Note 4.1)	\$ 1,644,489	12	1,616,573	14	Short-term loans (Note 4.8 and 6)	\$ 895,339	7	885,258	7
Financial assets at fair value through profit or loss -current (Note 4.2)	310,220	2	467,968	4	Notes and Accounts Payable	1,378,720	10	1,033,853	10
Notes and accounts receivable, net (Note 4.3)	2,292,679	17	2,121,871	18	Payables to related parties (Note 5)	47,818	-	18,546	-
Receivables from related parties (Note 5)	1,045,967	8	695,154	6	Income tax payable	60,875	-	102,914	1
Other receivables -related parties (Note 5)	1,200	-	121,438	1	Accrued expenses and other current liabilities (Note 5)	425,984	3	394,721	3
Other financial assets-current (Note 4.5, 5 and 6)	151,650	1	81,432	-	Current portion of long-term debt (Note 4.9)	146,333	1	125,417	1
Inventories, net (Note 4.4)	2,089,897	17	1,423,741	12	Total current liabilities	<u>2,955,069</u>	<u>21</u>	<u>2,560,709</u>	<u>22</u>
Prepaid expenses and other current assets (Note 4.12)	80,907	1	76,897	1	Long-term liabilities				
Total current assets	<u>7,617,009</u>	<u>58</u>	<u>6,605,074</u>	<u>56</u>	Corporate bonds payable (Note 4.10)	661,864	5	-	-
Funds and investments:					Long-term loans payable - bank (Note 4.9)	219,500	2	1,016,833	9
Long-term equity investments under equity method (Note 4.5)	2,380,440	18	2,210,849	19	Total long-term liabilities	<u>881,364</u>	<u>7</u>	<u>1,016,833</u>	<u>9</u>
Available-for-sale financial assets-noncurrent (Note 4.2)	360,402	3	342,242	3	Other liabilities:				
Financial assets carried at cost-noncurrent (Note 4.2)	300,000	2	300,000	3	Accrued pension liabilities (Note 4.11)	26,732	-	21,466	-
Total funds and investments	<u>3,040,842</u>	<u>23</u>	<u>2,853,091</u>	<u>25</u>	Deferred income tax liabilities-noncurrent (Note 4.12)	29,597	-	32,532	-
Property, plant and equipment (Note 4.6, 5 and 6):					Other liabilities	267	-	2,334	-
Land	597,530	5	460,179	4	Total other liabilities	<u>56,596</u>	<u>-</u>	<u>56,332</u>	<u>-</u>
Buildings	1,116,981	8	1,090,672	9	Total liabilities	<u>3,893,029</u>	<u>28</u>	<u>3,633,874</u>	<u>31</u>
Machinery and equipment	1,377,575	10	1,312,059	11	Stockholders' equity (Note 4.5, 4.10 and 4.13):				
Leasing assets	47,568	-	47,568	-	Common stock	3,202,175	24	2,872,175	24
Other equipment	187,933	1	146,549	1	Capital surplus	3,652,343	29	2,763,032	23
Subtotal	3,327,587	24	3,057,027	25	Retained earnings:				
Less: Accumulated depreciation	(947,200)	(7)	(752,371)	(6)	Legal reserve	776,837	6	691,876	6
Construction in progress and prepayments for equipment	227,149	2	38,498	-	Unappropriated earnings	1,258,972	9	1,373,352	12
Net property, plant and equipment	<u>2,607,536</u>	<u>19</u>	<u>2,343,154</u>	<u>19</u>		<u>2,035,809</u>	<u>15</u>	<u>2,065,228</u>	<u>18</u>
Other assets (Note 4.7)	1,938	-	6,197	-	Others:				
					Cumulative translation adjustments	(24,681)	-	34,041	-
					Net loss unrecognized as pension cost	(20,223)	-	(15,783)	-
					Unrealized gain or loss on financial instruments	528,873	4	454,949	4
						<u>483,969</u>	<u>4</u>	<u>473,207</u>	<u>4</u>
					Total stockholders' equity	9,374,296	72	8,173,642	69
					Commitments and contingencies (Note 5 and 7)				
Total assets	<u>\$ 13,267,325</u>	<u>100</u>	<u>11,807,516</u>	<u>100</u>	Total liabilities and stockholders' equity	<u>\$ 13,267,325</u>	<u>100</u>	<u>11,807,516</u>	<u>100</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 Income

For the years ended December 31, 2010 and 2009

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

	2010		2009	
	Amount	%	Amount	%
Gross sales	\$ 12,769,268	101	11,223,876	101
Less: Sales returns	(88,543)	(1)	(117,947)	(1)
Net sales (Note 5)	12,680,725	100	11,105,929	100
Cost of goods sold (Note 4.4 and 5)	(11,199,055)	(88)	(9,670,450)	(87)
Gross profit	1,481,670	12	1,435,479	13
Unrealized gross profit from affiliates (Note 5)	2,699	-	12,063	-
Realized gross profit	1,484,369	12	1,447,542	13
Operating expenses:				
Selling and administrative (Note 5)	(653,465)	(5)	(589,534)	(5)
Research and development	(117,618)	(1)	(96,700)	(1)
	(771,083)	(6)	(686,234)	(6)
Operating income	713,286	6	761,308	7
Non-operating income and gains:				
Interest income (Note 5)	10,396	-	10,564	-
Investment income recognized under equity method (Note 4.5)	193,853	2	181,817	2
Dividend income	14,162	-	13,265	-
Gain on disposal of investments, net (Note 4.5)	102,783	1	12,453	-
Valuation gain on financial assets (Note 4.2, 4.10)	39,806	-	9,362	-
Others (Note 5)	10,945	-	93,030	1
	371,945	3	320,491	3
Non-operating expenses and losses:				
Interest expenses (Note 4.10)	(19,753)	-	(15,750)	-
Foreign exchange loss	(94,416)	(1)	(7,576)	-
Others	(371)	-	(23,420)	-
	(114,540)	(1)	(46,746)	-
Income before income tax	970,691	8	1,035,053	10
Income tax expense (Notes 4.12)	(138,457)	(1)	(185,442)	(2)
Net income	<u>\$ 832,234</u>	<u>7</u>	<u>849,611</u>	<u>8</u>
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Earnings per share (Notes 4.14) (NT Dollars)				
Basic earnings per share	<u>\$ 3.23</u>	<u>2.77</u>	<u>3.61</u>	<u>2.96</u>
Diluted earnings per share	<u>\$ 3.09</u>	<u>2.65</u>	<u>3.55</u>	<u>2.92</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, 2010 and 2009
(Expressed in Thousands of New Taiwan Dollars)

	Retained Earnings				Others			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, 2009	\$ 2,806,456	2,741,791	624,427	1,096,352	73,076	(6,406)	(29,569)	7,306,127
Bonus to employees - in stock	9,590	15,410	-	-	-	-	-	25,000
Net income for the twelve months ended December 31, 2009	-	-	-	849,611	-	-	-	849,611
Appropriations of prior year's earnings (Note 4.13) (Remark 1):								
Legal capital reserve	-	-	67,449	(67,449)	-	-	-	-
Common stock cash dividends	-	-	-	(449,033)	-	-	-	(449,033)
Capitalization of prior year's earnings	56,129	-	-	(56,129)	-	-	-	-
Change in gains and losses of available-for-sale financial assets	-	-	-	-	-	-	191,378	191,378
Change of net loss not recognized as pension cost	-	-	-	-	-	(9,377)	-	(9,377)
Change in exchange differences in foreign currency financial statements translation	-	-	-	-	(39,035)	-	-	(39,035)
Adjustment due to change of investee's equity	-	5,831	-	-	-	-	293,140	298,971
Balance, December 31, 2009	2,872,175	2,763,032	691,876	1,373,352	34,041	(15,783)	454,949	8,173,642
Issuance of common stock for cash	330,000	742,504	-	-	-	-	-	1,072,504
Issuance of convertible bonds recognized as equity items – warrants	-	113,267	-	-	-	-	-	113,267
Net income for the twelve months ended December 31, 2010	-	-	-	832,234	-	-	-	832,234
Appropriations of prior year's earnings (Note 4.13) (Remark 2):								
Legal capital reserve	-	-	84,961	(84,961)	-	-	-	-
Common stock cash dividends	-	-	-	(861,653)	-	-	-	(861,653)
Change in gains and losses of available-for-sale financial assets	-	-	-	-	-	-	32,709	32,709
Change of net loss not recognized as pension cost	-	-	-	-	-	(4,440)	-	(4,440)
Change in exchange differences in foreign currency financial statements translation	-	-	-	-	(58,722)	-	-	(58,722)
Adjustment due to change of investee's equity	-	8,790	-	-	-	-	41,215	50,005
Remuneration for stock-based payment	-	24,750	-	-	-	-	-	24,750
Balance, December 31, 2010	\$ 3,202,175	3,652,343	776,837	1,258,972	(24,681)	(20,223)	528,873	9,374,296

Remark 1: Remuneration to directors and supervisors (NT\$15,100 thousand) and employee bonus (NT\$50,500 thousand) were deducted from income statement.

Remark 2: Remuneration to directors and supervisors (NT\$22,313 thousand) and employee bonus (NT\$119,005 thousand) were deducted from income statement.

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, 2010 and 2009

(Expressed in Thousands of New Taiwan Dollars)

	2010	2009
Cash flows from operating activities:		
Net income	\$ 832,234	849,611
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	194,971	209,624
Allowance (reverse) for doubtful accounts	7,240	(19,175)
Remuneration for stock-based payment	24,750	-
Depreciation and Amortization of Bonds payable	4,445	-
Loss (recovery) on retirement of inventory	13,864	(25,215)
Investment gain accounted for using equity method, net	(193,853)	(181,817)
Loss on disposal of property, plant and equipment, net	3	22,788
Gain on disposal of financial assets	(96,952)	(18,655)
Loss (gain) on disposal of long-term investments accounted for using equity method	(5,831)	6,202
Realized profit from intercompany	(2,699)	(12,063)
Gain on buyback of bonds payable	-	(6)
Deferred income tax expense (benefit)	11,504	34,425
Changes in assets and liabilities:		
Changes in assets		
Decrease (increase) in financial assets for trade purposes	228,434	(238,356)
Decrease in notes and accounts receivable	(178,048)	4,245
Decrease (increase) in receivables from related parties	(349,553)	141,108
Decrease (increase) in other receivables – related parties	2,499	(3,188)
Decrease (increase) in inventories	(680,020)	267,939
Decrease (increase) in prepaid expenses and other current assets	(4,884)	61,487
Decrease (increase) in other financial assets – current	(70,218)	41,509
Changes in liabilities:		
Increase in notes and accounts payable	344,867	32,463
Increase (decrease) in payables from related parties	29,272	(18,127)
Increase (decrease) in income tax payable	(42,039)	89,524
Increase in accrued expenses and other current liabilities	2,776	97,696
Increase (decrease) in accrued pension liabilities	826	(651)
Net cash provided from operating activities	<u>73,588</u>	<u>1,341,368</u>
Cash flows from investing activities:		
Acquisition of available-for-sale financial assets	-	(5,471)
Proceeds from sale of available-for-sale financial assets - noncurrent	111,501	58,757
Increase in long-term equity investments	-	(140,000)
Proceeds from sale of long-term equity investments	-	15,685
Stock returnables of subsidiary's surrender	7,811	-
Proceeds from return of capital by investee's company accounted for using equity method	-	26,892
Additions to property, plant and equipment	(428,186)	(283,348)
Proceeds from sale of property, plant and equipment	16	1,362
Decrease (increase) in other payables – related parties	116,479	(116,479)
Decrease in other assets	4,259	831
Net cash used in investing activities	<u>(188,120)</u>	<u>(441,771)</u>
Cash flows from financing activities:		
Increase in short-term loans	10,081	228,789
Issuance of corporate bonds	700,000	-
Buyback and cancellation of convertible bonds	-	(126,794)
Borrowing of long-term loans	-	5,000
Repayment of long-term loans	(776,417)	(51,000)
Increase (decrease) in other liabilities	(2,067)	2,062
Cash dividends	(861,653)	(449,033)
Capital surplus	1,072,504	-
Net cash provided from (used in) financing activities	<u>142,448</u>	<u>(390,976)</u>
Net increase in cash and cash in banks	27,916	508,621
Cash and cash in banks at beginning of period	1,616,573	1,107,952
Cash and cash in banks at end of period	<u>\$ 1,644,489</u>	<u>\$ 1,616,573</u>
Supplemental disclosure of cash flow information:		
Interest paid, excluding capitalization of interest	<u>\$ 15,188</u>	<u>\$ 15,973</u>
Income tax paid	<u>\$ 168,992</u>	<u>\$ 69,253</u>
Supplemental information on non-cash investing and financing activities:		
Current portion of long-term debt	<u>\$ 146,333</u>	<u>\$ 125,417</u>
Unrealized loss (gain) on financial instruments	<u>\$ (32,709)</u>	<u>\$ (191,378)</u>
Unrealized gain on adjustments in long-term equity investments	<u>\$ (41,215)</u>	<u>\$ (293,140)</u>
Adjustments in capital surplus in long-term equity investments	<u>\$ (8,790)</u>	<u>\$ (5,831)</u>
Cash used in acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	\$ (459,372)	\$ 232,323
Increase (decrease) in payables for property, plant and equipment	31,186	(51,025)
Payment in cash	<u>\$ (428,186)</u>	<u>\$ 283,348</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, 2010 AND 2009

(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, 2010 and 2009, the Company both had 854 and 780 employees, respectively.

2. Significant Accounting Policies

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

(1) Use of Estimates

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

(2) Foreign-currency Transactions and Foreign Statement Conversion

Holy Stone's foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur, while at the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings. The Company evaluated foreign-currency non-monetary assets or liabilities at the historical rate when the transactions occur. However, those evaluated by 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 resulting exchange gains or losses are also recognized in earnings; while for those recorded as adjustments on shareholders' equity, the resulting exchange 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 resulting exchange 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 designated purposes, and are not assets held for trading purposes, or assets expected to be converted to cash, sold or consumed within one year from the balance sheet date; others are all noncurrent assets.

Current liabilities are obligations that will be settled within one year from the balance sheet date or obligations expected to be settled by the normal operating process of enterprise; others are all noncurrent liabilities.

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(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 receivable amounts are less than assets' book value. If the accumulated amount of impairment losses on assets except goodwill 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 on financial instrument transactions. Financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition except those with trading purposes. Financial instruments held or issued by Holy Stone are classified as the following categories by its purpose after recognition:

1. Financial Assets/Liabilities at Fair Value through Profit or Loss: Financial instruments for the trading purposes of short-term sales and repurchase. Derivatives held by Holy Stone should be classified as this category except those assigned and those which are 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.

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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 hedge-efficient, 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) Receivables from Related Parties

Accounts and notes receivables 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 determine the status of available-for-sale 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 as 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.

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The difference, if any, between the cost of investment and the fair value of identifiable net assets, such as depreciated assets, assets allowance, and amortized assets, should be amortized annually with the estimated remaining economic life since acquisition; and those of book value and fair value of assets should abate the relevant unamortized remains in one time when overestimation or underestimation takes place. 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 cross-ownership, gains or losses on investments 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 in retained earnings.

The Company not only uses equity method to account for investees that it has control of, 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 years. Property, plant and equipment usable after the expiration of useful life, can continue to be recognized and computed over estimated service years of the residual value.

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. 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.

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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

The convertible bonds issued by the Company create financial liability and give the holders' right to convert at the same time. According to SFAS, No.36's "Financial Instruments: Disclosure and Presentation" stated that convertible bonds are hybrid financial instruments. Initial transaction cost is to be accounted proportionally as convertible liability and equity component. The proportion of convertible bonds as liability is taken as the difference between the value of convertible bonds and equity-irrelevant components, in other words, liability at fair value. Changes in equity of convertible bonds are not recognized. Interests on convertible bonds are spread proportionally to the contract period and recognized as gains and losses for that period. Derivative financial liability, on the other hand, is accounted at fair value, with changes recorded as gains or losses during the period. When the holders exercise their convertible rights, the value of common stock is calculated as liability component, adjusted as the face value at the time of the conversion, plus equity component.

(12) Pension Cost

In 1984, the Company established the employee retirement and resignation policy which applies to all hired employees. According to that mechanism, the payment of employee pension is the sum of principal and interests of individual deposit and corporate funds. 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 past 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, the percentage is lowered to 3%, and from July, 2007, to 2%.

The Company has the "pension fund monitoring committee", which is responsible for pension fund administration. The Company contributes pension fund monthly, and deposits into the pension fund account in Chinatrust Bank; however, since June, 1998, the account has been moved to the Central Trust of China.

The Company conducts the actuarial calculation on liabilities of pension fund yearly on every December 31. If the accumulated amount payable exceeds the fair value of pension funds, the difference should be recognized as liabilities on pension fund on the balance sheet date, 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.

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

(13) Treasury Stock

According to the SFAS No.30, "Accounting for treasury stock", the shares buyback 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 have 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 actual 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 being realized.

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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 distribution 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. Issuance of convertible bonds, shares as bonuses to employees that are not approved by the shareholders are considered as potential ordinary shares. If potential ordinary shares are not diluted, regular EPS is to be disclosed. 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

Effective January 1, 2009, the Company adopted the newly revised 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.

4. Accounts Statement

4.1 Cash and Cash Equivalents

Details:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Cash on hand	\$ 1,202	\$ 1,325
Current deposit	1,504,765	1,424,873
Checking account	8,522	20,201
Deposit account	130,000	70,000
Cash equivalents-repurchase bonds	-	100,174
	<u>\$ 1,644,489</u>	<u>1,616,573</u>

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4.2 Financial Instrument

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

	<u>12.31.2010</u>	<u>12.31.2009</u>
Foreign stocks	\$ 19,292	15,342
Bonds	223,175	426,151
Open-ended funds	10,460	19,400
Foreign exchange swap contracts	30,315	6,921
Foreign currency forward contracts	-	154
Redeem (buy) and put—convertible bonds payable	26,978	-
Total	<u><u>\$ 310,220</u></u>	<u><u>467,968</u></u>

Derivatives are hedging instruments to avoid exchange risks and interest risks from operating, financing, and investing activities. As of December 31, 2010 and 2009, details of derivatives not applied to hedging accounting are as follows:

(1) Foreign exchange swap contracts

<u>12.31.2010</u>		<u>12.31.2009</u>	
<u>Principal(USD)</u>	<u>Term</u>	<u>Principal(USD)</u>	<u>Term</u>
\$ 8,740,000	2010.12.21~2011.01.04	890,000	2009.12.22~2010.01.05
2,500,000	2010.12.21~2011.01.04	340,000	2009.12.22~2010.01.05
5,400,000	2010.12.21~2011.01.04	5,400,000	2009.12.22~2010.01.05
1,800,000	2010.12.21~2011.01.04	8,740,000	2009.12.22~2010.01.05
2,900,000	2010.12.21~2011.01.04	2,500,000	2009.12.22~2010.01.05
3,200,000	2010.12.21~2011.01.04	450,000	2009.12.22~2010.01.05
2,200,000	2010.12.21~2011.01.04	5,400,000	2009.12.22~2010.01.05
		1,800,000	2009.12.22~2010.01.05
		650,000	2009.12.22~2010.01.05
		2,900,000	2009.12.22~2010.01.05
		2,200,000	2009.12.22~2010.01.05
		3,200,000	2009.12.22~2010.01.05
<u><u>\$ 26,740,000</u></u>		<u><u>34,470,000</u></u>	

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

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(2) Foreign currency forward contracts

	12.31.2009		
	Notional Principal	Currency	Expiry Date
Sales of foreign currency forward contracts	USD <u>1,000</u>	USD to NTD	2009.11.20~2010.01.25

4.2.2 Available-for-sale financial assets - noncurrent

	12.31.2010	12.31.2009
GSI TECHNOLOGY INC. (GSIT)	\$ 205,359	193,657
eGalax_eMPIA Technology Inc. (EETI)	120,636	114,290
INPAQ Technology Co., Ltd. (INPAQ)	34,407	34,295
Total	\$ 360,402	342,242

4.2.3 Financial assets carried at cost - noncurrent

	12.31.2010	12.31.2009
Preferred stock – China Trust Commercial Bank	\$ 300,000	300,000

4.3 Notes and Accounts Receivable

Details:

	12.31.2010	12.31.2009
Notes receivable	\$ 148,592	128,404
Accounts receivable	2,203,076	2,040,216
Allowance for collectible accounts	(53,989)	(46,749)
	\$ 2,292,679	2,121,871

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4.4 Inventories

Details:

	<u>2010.12.31</u>	<u>2009.12.31</u>
Merchandise	\$ 1,417,855	950,799
Less: Allowance	<u>(87,070)</u>	<u>(104,946)</u>
Subtotal	<u>1,330,785</u>	<u>845,853</u>
Finished goods	345,877	246,219
Less: Allowance	<u>(22,715)</u>	<u>(21,822)</u>
Subtotal	<u>323,162</u>	<u>224,397</u>
Semi-finished goods	138,531	92,095
Less: Allowance	<u>(11,208)</u>	<u>(7,769)</u>
Subtotal	<u>127,323</u>	<u>84,326</u>
Work in process	102,441	84,018
Less: Allowance	<u>(622)</u>	<u>(1,975)</u>
Subtotal	<u>101,819</u>	<u>82,043</u>
Raw materials	204,132	185,867
Less: Allowance	<u>(1,551)</u>	<u>(1,871)</u>
Subtotal	<u>202,581</u>	<u>183,996</u>
Supplies	4,264	3,153
Less: Allowance	<u>(37)</u>	<u>(27)</u>
Subtotal	<u>4,227</u>	<u>3,126</u>
Total	<u>\$ 2,089,897</u>	<u>1,423,741</u>

For the years ended December 31, 2010 and 2009, the Company recognized related losses on inventories of NT\$9,958 thousand and (NT\$28,154) thousand, respectively, which include gains on inventories of NT\$15,208 thousand and NT\$55,219 thousand from the writeup of net realizable value and losses on inventories charged, respectively.

4.5 Long-term Equity Investments

Details:

<u>Investee Company</u>	<u>12.31.2010</u>		<u>2010</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	160,997
Holy Stone Holdings Co., Ltd.	100.00%	841,951	903,904
UHOLY INVESTMENTS CO., LTD	57.69%	225,000	631,482
Taiwan Mahk Opt Co., Ltd.	- %	-	-
Martek Co., Ltd.	100.00%	20,000	156,402
RONG JHAN INVESTMENTS CO., LTD.	100.00%	<u>340,000</u>	<u>527,655</u>
		<u>\$ 1,475,997</u>	<u>2,380,440</u>
			<u>193,853</u>

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<u>Investee Company</u>	<u>% of Ownership</u>	<u>12.31.2009</u>		2009
		<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	160,591	11,813
Holy Stone Holdings Co., Ltd.	100.00%	841,951	892,765	27,207
UHOLY INVESTMENTS CO., LTD	57.69%	225,000	587,110	20,843
Taiwan Mahk Opt Co., Ltd.	70.56%	75,350	4,329	(7,282)
Kallex Co., Ltd.	-	-	-	(2,727)
Martek Co., Ltd.	100.00%	20,000	95,139	54,400
RONG JHAN INVESTMENTS CO., LTD.	100.00%	<u>340,000</u>	<u>470,915</u>	<u>77,563</u>
		<u>\$ 1,551,347</u>	<u>2,210,849</u>	<u>181,817</u>

1. In February 2009, the Company made additional investment in Rong Jhan's cash capital increase with NT\$140,000 thousand, NT\$10 per share.
2. 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 disposal of investment of NT\$6,202 thousand.
3. Taiwan Mahk Opt Co., Ltd., valued at equity method by the Company, was dissolved in December, 2010 and returned capital of NT\$7,811 thousand. Up to December 31, 2010, amount receivable is NT\$7,811 thousand and have been recognized under "Other financial assets-current."
4. For the years ended December 31, 2010 and 2009, equity in earnings/losses of equity method investees was a net gain of NT\$8,790 thousand and NT\$5,831 thousand, respectively.
5. For the years ended December 31, 2010 and 2009, long-term investments accounted by equity method have not yet provided pledged collaterals.

4.6 Property, plant and equipment

1. Property, plant and equipment as collaterals for bank loans, please refer to Notes 6.
2. Details on assets leased to others of the Company as of December 31, 2010 and 2009 are summarized as follows:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Assets leased to others-land	\$ 28,818	28,818
Assets leased to others-building	<u>18,750</u>	<u>18,750</u>
Subtotal	47,568	47,568
Accumulated depreciation	<u>(4,503)</u>	<u>(4,135)</u>
	<u>\$ 43,065</u>	<u>43,433</u>

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4.7 Idle Assets

Details on idle assets of the Company as of December 31, 2010 and 2009 are summarized as follows:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Machinery and equipment	\$ 61,238	61,238
Other equipment	<u>7,695</u>	<u>7,695</u>
Subtotal	68,933	68,933
Less: Accumulated depreciation	(7,854)	(7,854)
Accumulated impairment	<u>(61,079)</u>	<u>(61,079)</u>
Total	<u>\$ -</u>	<u>-</u>

4.8 Short-term Loans

Details:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Purchases loans	<u>\$ 895,339</u>	<u>885,258</u>
Interest rate	<u>0.583%~1.471%</u>	<u>0.6265%~3.00%</u>

As of December 31, 2010 and 2009, the Company's credit lines on short-term loans which have not been used from financial institutions were NT\$2,267,166 thousand and NT\$1,996,773 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.

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4.9 Long-term Liabilities

Details:

<u>Creditor</u>	<u>Line of Credit and Key Terms</u>	<u>12.31.2010</u>	<u>12.31.2009</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.	365,833	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, which has already been paid off in full by May 2010.	-	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, which has already been paid off in full by May 2010.	-	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, which has already been paid off in full by May 2010.	-	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, which has already been paid off in full by May 2010.	-	5,000
	Subtotal	365,833	1,142,250
Less: Current portion		(146,333)	(125,417)
		<u>\$ 219,500</u>	<u>1,016,833</u>

- Each long-term loan of the Company is unsecured loan.
- The aforementioned interests are paid in floating interest rate, with an approximation of 0.920 percent to 1.520 percent and 0.910 percent to 2.673 percent in 2010 and 2009, respectively.
- As of December 31, 2010 and 2009, long-term loans not be used by the Company totaled NT\$0 and NT\$907,750 thousand, respectively.
- As of December 31, 2010, the loan balance should be paid as follows:

<u>Period</u>	<u>Amount</u>
01.01.2011~12.31.2011	\$ 146,333
01.01.2012~12.31.2012	146,333
01.01.2013~06.30.2013	73,167
	<u>\$ 365,833</u>

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4.10 Bonds Payable

Details:

	12.31.2010
Total proceeds from issuing convertible bonds	\$ 700,000
Discount in bonds payable	(38,136)
Balance of bonds payable at the end of period	\$ 661,864
Derivative financial instrument—redemption (buy) and sell (financial assets included in gains or losses in fair value – current)	\$ 26,978
Equity components (included in capital reserve-options)	\$ 113,267
	2010
Derivative financial instrument—redemption (buy) and sell (Change in fair value recorded as evaluation loss)	\$ 43,708
Interest Expense	\$ 4,445

Third issuance of domestic unsecured convertible bond has an interest rate of 0%, with 5-year term, from June 23, 2010 to June 23, 2015. Starting from a full month after issuance until forty days before maturity, the Company can implement an early redemption; thirty days before a full two-year period, three-year period, and four-year period, bond holders can request the Company to redeem the bonds at interests at 100%, 100% and 101% on top of the face value, respectively. From the first full month after issuance until ten days before maturity, bond holders can convert to common stock at the convertible value to-date calculated by the conversion method. For December 31, 2010, the convertible price is NT\$39.80.

According to SFAS No.36, the Company is required to separate equity and liability components, as follow:

	12.31.2010
Liability from issuing convertible bond	\$ 657,419
Derivative financial instruments during issuance-right to redeem (buy) and sell	(70,686)
Equity component during issuance	113,267
Total liability during issuance	\$ 700,000

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NOTES TO FINANCIAL STATEMENTS (Continued)

4.11 Pension Plan

(1) Reconciliation of funded status of the plan and accrued pension cost at December 31, 2010 and 2009.

	<u>12.31.2010</u>	<u>12.31.2009</u>
Benefit obligation:		
Vested benefit obligation	\$ (14,390)	(7,823)
Nonvested benefit obligation	<u>(92,567)</u>	<u>(88,866)</u>
Accumulated benefit obligation	(106,957)	(96,689)
Additional benefits based on future salaries	<u>(17,132)</u>	<u>(17,435)</u>
Projected benefit obligation	(124,089)	(114,124)
Fair value of plan assets	<u>80,225</u>	<u>75,223</u>
Funded status	(43,864)	(38,901)
Unrecognized net transition obligation	37,355	33,218
Unrecognized net loss	<u>(20,223)</u>	<u>(15,783)</u>
Accrued pension cost	<u>\$ (26,732)</u>	<u>(21,466)</u>

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

	<u>2010</u>	<u>2009</u>
Service cost	\$ 2,193	1,996
Interest cost	2,568	2,125
Actual return on plan assets	(1,697)	(1,602)
Unamortized pension	<u>1,558</u>	<u>507</u>
Net periodic pension cost	<u>\$ 4,622</u>	<u>3,026</u>

(3) Actuarial assumptions are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate used in determining present values	2.25%	2.25%
Salary adjustment rate	1.50%	1.50%
Expected rate of return on plan assets	2.25%	2.25%

For the year ended December 31, 2010 and 2009, pension cost was NT\$23,117 thousand and NT\$19,544 thousand, respectively.

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

4.12 Income Tax

(1) According to the amended Income Tax Act on June 15, 2010, the Company would be subject to income tax rate of 17% commencing from 2010. Applicable incomes are subject to income taxes of 17% and 25% in the year 2010 and 2009, respectively.

(2) The components of income tax for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Current income tax expense	\$ 126,953	151,017
Deferred income tax expense (benefit)	<u>11,504</u>	<u>34,425</u>
Income tax expense	<u><u>\$ 138,457</u></u>	<u><u>185,442</u></u>

The components of deferred income tax expense (benefit) for the years ended December 31, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Unrealized gain or loss on foreign exchange, net	\$ (6,456)	(18,097)
Unrealized loss on investment, net	14,234	55,530
Unrealized impairment loss, net	-	9,968
Loss for market price decline and obsolete and slow-moving inventories	2,585	12,108
Valuation Allowance- current changes in deferred income tax assets	-	(41,477)
Effect of change in income tax rate on deferred income tax	1,810	12,528
Others	<u>(669)</u>	<u>3,865</u>
	<u><u>\$ 11,504</u></u>	<u><u>34,425</u></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, 2010 and 2009, as follows:

	<u>2010</u>	<u>2009</u>
Estimated income tax expense calculated based on financial income before tax	\$ 165,017	258,763
Income from securities selling	(2,657)	(3,667)
Valuation Allowance—current changes in deferred income tax assets	-	(41,477)
Effect of change in income tax rate	1,810	17,840
Investment allowance—5 years tax-free and machinery and equipment purchase	(14,610)	(71,590)
Additional tax at 10% on unappropriated earnings	-	10,189
Others	<u>(11,103)</u>	<u>15,384</u>
	<u><u>\$ 138,457</u></u>	<u><u>185,442</u></u>

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NOTES TO FINANCIAL STATEMENTS (Continued)

- (4) The components of deferred income tax assets (liabilities) as of December 31, 2010 and 2009 are as follows:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Current deferred income tax assets:		
Losses on inventory valuation and obsolescence	\$ 20,944	27,682
Allowance for uncollectible accounts-over limit	4,616	5,430
Unrealized loss on foreign exchange, net	8,859	2,827
Others	799	153
Net current deferred income tax assets	<u>\$ 35,218</u>	<u>36,092</u>
Noncurrent deferred income tax assets:		
Reductions and others	\$ 10,383	12,216
Cumulative translative adjustments	5,055	-
Valuation allowance	(10,383)	(12,216)
Net noncurrent deferred income tax assets	<u>\$ 5,055</u>	<u>-</u>
Noncurrent deferred income tax liabilities:		
Long-term investment income under equity method	\$ (34,652)	(24,022)
Cumulative translation adjustments	-	(8,510)
Noncurrent deferred income tax liabilities	(34,652)	(32,532)
Net noncurrent deferred income tax liabilities	<u>\$ (29,597)</u>	<u>32,532</u>

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

- (5) According to the Statute for Industrial Innovation, investment allowance of R&D expense can be applied to income tax for operations, with the allowance not exceeding 30% of the total operating income tax. For the year 2010, the investment allowance is NT\$8,805 thousand.
- (6) The tax authorities have examined income tax returns of the Company through 2007.
- (7) The integrated income tax system:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Unappropriated earnings before 1997	\$ -	1,848
Unappropriated earnings after 1998	1,258,972	1,371,504
	<u>\$ 1,258,972</u>	<u>1,373,352</u>
Imputation credit account (ICA) balance	<u>\$ 171,397</u>	<u>159,234</u>
	<u>2010 (Expected)</u>	<u>2009 (Actual)</u>
Actual /estimated creditable ratio for earnings distribution	<u>18.45%</u>	<u>22.57%</u>

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NOTES TO FINANCIAL STATEMENTS (Continued)

4.13 Stockholders' Equity

1. Common Stock and Stock Issuances

On June 16, 2009, the Company's shareholders approved a resolution to increase capital of NT\$56,129 thousand and employees' bonus of NT\$25,000 thousand, from shareholders dividends. The total common shares issued is 6,572 thousand (including employees stock bonuses 959 thousand). The record date for capital increase is August 26, 2009, and was authorized by and registered with government authorities.

On May 11, 2010, the Board approved to reduce interest expense and purchase Property, plant and equipments to increase productivity, revenue and profit to settle bank loans and to strengthen financial structure and competitiveness. A resolution has been proposed to increase capital through issuing 33,000 thousand new shares, each at NT\$32.50, record date as August 4, 2010 with NT\$3,202,175 thousand as capital issued. This resolution was authorized by and registered with government authorities.

As of December 31, 2010 and 2009, the Company's authorized common stock consisted of NT\$4,500,000 thousand, with par value of NT\$10 per share, of which NT\$3,202,175 and NT\$2,872,175, respectively, were issued as capital.

2. 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, 2010 and 2009, the components of capital surplus are as follows:

	<u>12.31.2010</u>	<u>12.31.2009</u>
From cash capital increase	\$ 1,687,890	945,386
From convertible bonds	1,463,082	1,463,082
From corporate options	113,267	-
From treasury stock	424	424
From Merger	144,225	144,225
From employees stock option	188,297	163,547
From employees' bonus	15,410	15,410
From long-term equity investment	39,748	30,958
	<u>\$ 3,652,343</u>	<u>2,763,032</u>

3. 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.

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4. 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.

5. Distribution of earnings

According to Holy Stone's articles of incorporation, if there is a surplus considering all accounts by the end of a fiscal year, the surplus shall be allocated in the following order;

- (1) Pay off income taxes as required by law.
- (2) Offset accumulated deficits from past years.
- (3) Allocate 10 percent to capital reserve, unless capital reserve has reached total paid-in capital.
- (4) Allocated a portion to special capital reserve, as required by government regulations.
- (5) The surplus remaining after deduction of items (1) to (4) should be allocated to the directors, supervisors and employees as follow:
 - A. Remuneration for directors and supervisors should not exceed 3%.
 - B. Employee bonuses should be no less than 7%.If employee bonuses are distributed as stocks, these employees must be qualified according to the requirements composed by the board or his/her authorized personnel.
- (6) The surplus remaining after deductions of items (1) to (5) could be distributed to the shareholders after the resolution is approved in the shareholders' meeting.

For the years ended December 31, 2010 and 2009, the bonuses to employees and remuneration to directors and supervisors were accrued based on a respective 16% and 3% of net income after setting aside 10% net income as legal reserves. In 2010 and 2009, bonuses to employees were NT\$116,964 thousand and NT\$119,005 thousand, respectively, and remunerations to directors and supervisors were NT\$21,931 thousand and NT\$22,313 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, adjusted for cash and/or stock dividends if any. If the board's approval differs from the amount ratified at the meeting, the difference will be treated as changes in accounting estimation and will be adjusted in the income of 2011 and 2010, respectively.

The appropriation of 2009 and 2008 earnings was approved at the shareholders' meetings on June 14, 2010, and June 16, 2009, respectively as follows:

	<u>2009</u>	<u>2008</u>
Employee bonuses-stock	\$ -	25,000
Employee bonuses-cash	119,005	25,500
Directors' and supervisors' remuneration	<u>22,313</u>	<u>15,100</u>
	<u>\$ 141,318</u>	<u>65,600</u>

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The 2008 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. The 2009 appropriation of earnings did not differ from the resolutions approved by the board.

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.

6. Dividend Policy

The Company formulated 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 earnings distribution plan and proposes it to the annual general shareholders' meeting. The appropriation of the Company's net income may be distributed by ways of cash dividend and/or stock dividends 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.

7. Employee Stock options plans (ESO Plans)

In order to attract and retain well-performing employees and encourage each employee to create interests for the Company and all stockholders, the employee stock options were issued through 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 are 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, 2010 (NTD)	Issuing Way
2006 1 st ESO Plan	07.10.2006	1	5,000,000	08.21.2006	1,500,000	\$ 49.3	33.70	In turn
"		-	-	06.15.2007	3,500,000	58.5	41.00	"
2007 1 st ESO Plan	11.11.2007	1	10,000,000	12.03.2007	10,000,000	50.0	38.00	One 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 options two years after they received it 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 it and it would become 75% three years after, and 100% four years after.

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As of December 31, 2010, details of vested options of ESO Plans are as follows:

ESO Plans	Units Granted Issued	Units Actually Issued	Units Converted	Units Expired	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	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	\$ 15,001,049	15,001,049	-	1,049	15,000,000	

According to standards of No. 70, No. 71 and No.72, issued by the Accounting Research and Development Foundation on March 17, 2003, all enterprises should follow 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 be retroactively adjust to apply to SFAS No.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, totaling 15,000,000 shares in common stock, is disclosed as follows:

- (1) No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2010 and 2009 since market value of stock at measurement date was equal to exercise price.
- (2) Had the Company used the fair value 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 granted date using the Black-Scholes option pricing model. Compensation costs amounted to NT\$0 and NT\$94,853 thousand in 2010 and 2009, respectively. Assumptions used to estimate the fair value of the aforementioned employee stock options are 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

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

Stock Option	2010		2009	
	Unit (in thousands)	Weighted-average exercise price (NT\$)	Unit (in thousands)	Weighted-average exercise price (NT\$)
Outstanding balance at the beginning of period	15,000	\$ 41.78	16,049	\$ 43.11
Option granted	-	-	-	-
Options exercised	-	-	-	-
Option expired	-	-	(1,049)	-
Outstanding balance at the end	<u>15,000</u>	38.27	<u>15,000</u>	41.78
Exercisable number at the end	<u>7,125</u>	38.20	<u>4,375</u>	41.66
Exercisable number at the end	-	-	-	-

C. As of December 31, 2010, details of outstanding options of the ESO plans are as follows:

Outstanding stock options as of Dec. 31, 2010				Vested options	
Exercise price (NT\$)	Units	Remaining vesting period	Exercise price (NT\$)	Units as of 12.31.2010	Exercise price (NT\$)
\$ 33.70	1,500,000	1.64	\$ 33.70	1,500,000	\$ 33.70
41.00	3,500,000	2.45	41.00	2,625,000	41.00
38.00	10,000,000	6.93	38.00	3,000,000	38.00

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:

		2010	2009
Net income	Net income as reported	\$ 832,234	849,611
	Pro forma net income	832,234	778,471
Basic earnings per share (NT Dollars)	Basic EPS as reported	2.77	2.96
	Pro forma basic EPS	2.77	2.71

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4.14 Earnings per Share

The Company's basic earnings per share and diluted earnings per share of 2010 and 2009 were computed as follows:

	2010		2009	
	Before income tax	After income tax	Before income tax	After income tax
Basic EPS				
Net income	\$ <u>970,691</u>	<u>832,234</u>	<u>1,035,053</u>	<u>849,611</u>
Weighted average number of shares outstanding (in thousand)	<u>300,779</u>	<u>300,779</u>	<u>286,781</u>	<u>286,781</u>
Basic EPS (NT Dollars)	\$ <u>3.23</u>	<u>2.77</u>	<u>3.61</u>	<u>2.96</u>
Diluted EPS				
Net income	\$ 970,691	832,234	1,035,053	849,611
Effect of dilutive potential common stock – convertible bonds	4,445	3,689	-	-
Diluted EPS-net income	\$ <u>975,136</u>	<u>835,923</u>	<u>1,035,053</u>	<u>849,611</u>
Weighted average number of shares outstanding (in thousands)	300,779	300,779	286,781	286,781
Expensing employee bonus	4,513	4,513	3,412	3,412
Employee stock options	731	731	-	-
Domestic convertible bond	9,252	9,252	1,042	1,042
Diluted EPS- weighted average number of shares outstanding (in thousand)	<u>315,275</u>	<u>315,275</u>	<u>291,235</u>	<u>291,235</u>
Diluted EPS (NT Dollars)	\$ <u>3.09</u>	<u>2.65</u>	<u>3.55</u>	<u>2.92</u>

4.15 Additional Disclosure on Financial Instruments

1. Fair value information

As of December 31, 2010 and 2009, the fair value of the Company's financial assets and liabilities is as follows:

	12.31.2010		12.31.2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 1,644,489	1,644,489	1,616,573	1,616,573
Financial assets at fair value through profit or loss-current:	310,220	310,220	467,968	467,968
Notes and accounts receivable (including related parties)	3,339,846	3,339,846	2,938,463	2,938,463
Available-for-sale financial assets - noncurrent	360,402	360,402	342,242	342,242
Financial assets carried at cost - noncurrent	300,000	Note	300,000	Note
Financial liabilities:				
Short-term loans	895,339	895,339	885,258	885,258
Notes and accounts payable (including related parties)	1,426,538	1,426,538	1,052,399	1,052,399
Bonds payable (current portion)	661,864	661,864	-	-
Long-term borrowing (including current portion)	365,833	365,833	1,142,250	1,142,250

Note: Preferred stock with annual dividend of 3.5%. The fair value is unavailable since there is no active market transaction.

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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 their short-term nature.
 - (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. If the market price is available, the fair value would be based on the market stated price.
 - (4) The fair value of long-term borrowings approximates their carrying amount due to floating interest rate.
3. The fair value of the Company's financial assets and liabilities determined by publicly quoted market price, if available, or determined using a valuation technique are as follows:

	12.31.2010		12.31.2009	
	<u>Publicly quoted market prices</u>	<u>Fair value based on valuation technique</u>	<u>Publicly quoted market prices</u>	<u>Fair value based on valuation technique</u>
Financial assets:				
Cash and cash equivalents	\$ -	1,644,489	-	1,616,573
Financial assets at fair value through profit or loss-current:	252,927	57,293	460,893	7,075
Notes and accounts receivable (including related parties)	-	3,339,846	-	2,938,463
Available-for-sale financial assets - noncurrent	360,402	-	342,242	-
Financial liabilities:				
Short-term loans	-	895,339	-	885,258
Notes and accounts payable (including related parties)	-	1,426,538	-	1,052,399
Bonds payable (current portion)	-	661,864	-	-
Long-term borrowing (including current portion)	-	365,833	-	1,142,250

4. Information on 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

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of credit risk in cash and investments. The majority of the Company's customers are in extensive high-tech computer industry. The Company continuously evaluates the credit quality and financial strength of its customers. If necessary, the Company will request collateral from its customers.

(3) Liquidity risk

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

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

The Company's short-term and long-term borrowings are floating-interest-rate borrowings. As a result, the Company is exposed to fluctuation in interest rates that affect cash flows for interest payments on these borrowings. If the market interest rates on the Company's floating interest rate borrowings had been 1% higher with all other variables held constant, the interest expense would have been NT\$12,612 thousand different.

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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) (Dissolved in December,2010)
MARTEK CO., LTD. ("MARTEK")	Subsidiary of Holy Stone (H.S)
Hec Japan Technology Co., Ltd. ("HEC")	Subsidiary of Holy Stone Holdings (Liquidated in April 2009)
OHGA Electronic Co., Ltd. ("OHGA")	Subsidiary of RONG JHAN INVESTMENT
Holy Stone Polytech Co., Ltd. ("HPC")	Subsidiary of Holy Stone Holdings
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 (CHINA) CO., LTD. ("INFORTECH")	Subsidiary of H.S.I
Milestone Global Technology Ltd. ("MGT")	Subsidiary of H.S.I
Holy Stone (Europe) Ltd. ("HSE")	Subsidiary of Green Glory Holdings (G.G.H)
All directors and supervisors, president and vice presidents	Main management team of the Company

5.2 Significant Transactions with Related Parties

Significant transactions with related parties in 2010 and 2009, and the transaction remainders as of December 31, 2010 and 2009 are as follows:

1. Sales

	2010		2009	
	Amount	% of net sales	Amount	% of net sales
Holy Stone (Hong Kong)	\$ 1,236,766	9.76	558,917	5.03
Holy Stone (Shanghai)	1,017,209	8.02	1,014,493	9.13
INFORTECH (CHINA)	406,307	3.20	305,735	2.75
Others	3,031	0.02	941	0.01
	\$ 2,663,313	21.00	1,880,086	16.92

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Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

As of December 31, 2010 and 2009, the deferred unrealized gross profits, made by downstream transactions with the affiliates, were NT\$18,003 thousand and NT\$20,702 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 were next month-end 30 to 150 days.

2. Purchases

	2010		2009	
	Amount	% of net purchases	Amount	% of net purchases
HPC	\$ 253,565	2.27	-	-
EETI	\$ 60,596	0.54	114,933	1.30
Others	3,296	0.03	10,977	0.12
	\$ 317,457	2.84	125,910	1.42

The Company did not purchase similar products from unrelated vendors; therefore, it was not ideal 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.

3. The remainders of notes and accounts receivable and payable

The remainders of 2010 and 2009 year-end receivables and payables incurred by purchases and sales as mentioned above are as follows:

	12.31.2010		12.31.2009	
	Amount	%	Amount	%
Notes and accounts receivable:				
Holy Stone (Hong Kong)	\$ 540,892	16.20	217,590	7.72
Holy Stone (Shanghai)	393,528	11.79	405,180	14.38
INFORTECH (CHINA)	110,471	3.31	72,170	2.56
Others	1,076	0.03	214	0.01
	\$ 695,154	23.66	695,154	23.66
Notes and accounts payable:				
EETI	\$ 13,7448	0.96	15,548	1.48
HPC	30,194	2.12	-	-
	\$ 15,548	1.48	15,548	1.48

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

4. Financing

Details on the Company's financing to related parties are as follows:

	2010			
	<u>Maximum amount</u>	<u>Amount on Dec 31</u>	<u>Interest rate</u>	<u>Interest income</u>
Holy Stone Holdings	<u>\$ 116,479</u>	<u>-</u>	<u>1.80%</u>	<u>589</u>

	2009			
	<u>Maximum amount</u>	<u>Amount on Dec 31</u>	<u>Interest rate</u>	<u>Interest income</u>
Holy Stone Holdings	<u>\$ 116,479</u>	<u>116,479</u>	<u>1.80%</u>	<u>-</u>

The financing parties were 100% held subsidiary of the Company, so collaterals were not needed. Up till December 31, 2010, the abovementioned payments have been settled along with the interest income.

5. Lease agreement

The Company leased buildings to Taiwan MAHK and other related parties, and rentals amounted to NT\$979 thousand for both years and were recognized as other expenses. According to lease contracts, the aforementioned rentals were monthly received. As of December 31, 2010 and 2009, the rentals which had not been received were NT\$5,000 in total.

6. Technology transfer contract

In May 2003, the Company made technology transfer contract of "BME MLCC" with HEC, and the contract amounted to NT\$66,408 thousand, or ¥215,000 thousand, recognized as other assets. As of December 31, 2007, the assets had been amortized. HEC has been liquidated in April 2009, and in 2009, the Company recognized account payables of NT\$17,584 thousand (¥56,850,000) as other expenses.

7. Property transaction

Between May and November 2010, the Company purchased equipments for NT\$6,943 thousand (¥20,254,000) from HPC. As of December 31, 2010, the payment had been settled.

8. Others

- (1) During 2010 and 2009, the Company paid commissions of NT\$62,384 thousand and NT\$47,271 thousand, respectively, to MGT and HSE for business promotion. The commissions were recorded in the selling and administrative account. Unpaid commission was NT\$3,880 thousand and NT\$2,998 thousand as of December 31, 2010 and 2009, 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\$1,024 thousand and NT\$2,599 thousand.
- (3) As of December 31, 2010 and 2009, receivables from related parties due to on behalf of the Company, other expenses and other expenditure, amounted to NT\$171 thousand and NT\$2,355 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

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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

- (1) On December 31, 2010 and 2009, the remainders of the endorsements/guarantees made by the Company for Martek were both NT\$20,000 thousand.
- (2) As of December 31, 2010, the Company borrowed loans of NT\$32,000 thousand on behalf of Holy Stone Holdings as pledge assets, listed under "Other financial assets-current."
- (3) Approved by the board in August 2010, the Company endorsed US\$10,000 for HPC. And on December 31, 2010, the Company endorsed for HPC's bank loans which was worth NT\$179,100 thousand (¥500,000,000).

10. Details on receivables from related parties on December 31, 2010 and 2009 are summarized as follows:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Notes and accounts receivable	\$ 1,045,967	695,154
Financing models receivable	-	116,479
Other receivables	<u>1,200</u>	<u>4,959</u>
	<u>\$ 1,047,167</u>	<u>816,592</u>

11. Details on payables from related parties on December 31, 2010 and 2009 are summarized as follows:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Notes and accounts payable	\$ 43,938	15,548
Other payables	<u>3,880</u>	<u>2,998</u>
	<u>\$ 47,818</u>	<u>18,546</u>

5.3 Main Managers' Remuneration

Details on remuneration paid to directors, supervisors, president, and vice presidents in 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Remuneration	\$ 36,570	46,592
Expense of execution	1,440	920
Employees' bonus	27,000	37,000

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.

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Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

6. Pledged Assets

As of December 31, 2010 and 2009, details on carrying amount of pledged assets as collaterals against bank loans are as follows:

Pledged assets	Pledged to secure	Carrying amount	
		12.31.2010	12.31.2009
Time deposits (recognized as the other financial assets-current)	Import duties	\$ 58,596	36,524
"	Loans from subsidiary	32,000	-
Land	Short-term loans	75,891	75,891
Buildings	"	6,421	6,734
Total		\$ 172,908	119,149

7. Commitments and Contingencies

The outstanding letters of credit facilitate the Company's purchase of materials. As of December 31, 2010 and 2009, the Company's outstanding letters of credit amounted to NT\$443,685 thousand and NT\$112,719 thousand, respectively.

8. Significant Disaster Loss: None.

9. Significant Subsequent Events: None.

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Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

10. Others

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

Characters	Functions	2010			2009		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personal Costs							
Payroll		224,093	382,066	606,159	184,132	362,195	546,327
Labor and health		21,143	20,119	41,262	16,409	17,837	34,246
Pension expense		13,201	14,538	27,739	10,993	11,577	22,570
Other (Note)		6,217	8,533	14,750	4,595	7,872	12,467
Depreciation		177,099	17,872	194,971	188,605	21,019	209,624

Note: Including meals and training expenses.

10.2 The Company's significant foreign financial assets and liabilities are as follows:

	12.31.2010			12.31.2009		
	Foreign Currency	Rate	NT\$	Foreign Currency	Rate	NT\$
<u>Financial Assets</u>						
<u>Currency-related items</u>						
USD	\$ 110,359	29.13	3,214,748	86,500	31.99	2,767,103
EUR	93	38.92	3,618	17	46.10	763
HKD	10,567	3.748	39,606	8,032	4.126	33,144
JPY	187,409	0.3582	67,130	94,288	0.3465	32,670
CNY	99	4.4405	441	144	4.685	675
KRW	358	0.02618	9	358	0.0275	10
<u>Noncurrency-related items</u>						
USD	-	-	-	369	31.99	11,802
HKD	4,868	3.748	18,246	647	4.126	2,668
<u>Long-term investments by equity method</u>						
USD	36,795	29.13	1,071,835	32,928	31.99	1,053,356
<u>Financial Liabilities</u>						
<u>Noncurrency-related items</u>						
USD	75,391	29.13	2,196,142	58,628	31.99	1,875,515
EUR	2	38.92	75	-	-	-
JPY	258,242	0.3582	92,502	357,713	0.3465	123,948
GBP	21	45.19	966	-	-	-
HKD	-	-	-	3	4.126	12

10.3 Reclassification

Figures of 2009 financial statements were reclassified properly in order to match those of 2010 financial statements.

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Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

11. Additional Disclosures

11.1 Significant Transaction Information

In 2010, the additional disclosures required by the Regulations Governing the Preparation of Financial Report are 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	-	1.80%	Necessary for short-term financing	-	Operation turnover	-	-	-	1,499,887	3,749,718

Note: Financing to related parties is limited to 40 percent of the Company's net worth.

2. Endorsement/guarantee provided:

No.	Endorser/ Guarantor Company	Endorsee/Guarantee		Quotas of Endorsement/ Guarantee for Single Enterprise	Endorsement/ Guarantee Balance, Highest	Endorsement/ Guarantee Balance, Ended	Endorsement/ Guarantee Warranted by Property	Accumulated Endorsement/ Guarantee to Financial Statement's Net Value Rate	Highest Quotas of Endorsement/ Guarantee
		Company	Nature of Relationships						
0	The Company	Martek Co., Ltd.	Subsidiary	1,874,859	20,000	20,000	-	0.21%	4,687,148
0	The Company	Holy Stone Holding Co., Ltd.	Subsidiary	1,874,859	32,000	32,000	32,000-	0.34%	4,687,148
0	The Company	Holy Stone Polytech Co., Ltd..	Subsidiary	1,874,859	187,600	179,100	-	1.91%	4,687,148

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

3. Marketable securities held:

Unit: Thousand shares

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010				Note
				Shares (unit)	Carrying Value	Percentage of Ownership	Market Value (Net Asset Value)	
The Company	AMVIG	-	Financial assets at fair value through profit or loss - current - foreign stock	440	10,768	-	10,768	-
The Company	MAOYE INTL	-	"	200	2,631	-	2,631	-
The Company	CHANGFENG AXLE	-	"	250	4,198	-	4,198	-
The Company	MIE HOLDINGS CO.	-	"	266	1,695	-	1,695	-
The Company	TMTEC Corporate Bond B	-	Financial assets at fair value through profit or loss - current - bond	700	71,766	-	71,766	-
The Company	Everlight Corporate Bond D	-	"	400	41,008	-	41,008	-
The Company	King Slide Corporate Bond A	-	"	200	20,000	-	20,000	-
The Company	Uni-president Securities Corporate Bond A	-	"	300	30,000	-	30,000	-
The Company	D-Link Corporate Bond C	-	"	200	20,000	-	20,000	-
The Company	Catcher Corporate Bond A	-	"	400	40,401	-	40,401	-
The Company	Cathay MAN AHL Diversified Future Fund	-	Financial assets at fair value through profit or loss - current -	1,000	10,460	-	10,460	-

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Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010				Note
				Shares (unit)	Carrying Value	Percentage of Ownership	Market Value (Net Asset Value)	
			open-ended fund					
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of the Company	Long-term equity investment	11,500	160,997	100.00	160,997	-
The Company	Holy Stone Holdings Co., Ltd. Stock	Subsidiary of the Company	"	26,976	903,904	100.00	910,838	-
The Company	UHOLY Investments Co., Ltd. Stock	Subsidiary of the Company	"	22,500	631,482	57.69	630,105	-
The Company	Taiwan Mahk Opt Co., Ltd. Stock	Subsidiary of the Company	"	8,500	156,402	100.00	156,402	-
The Company	Rong Jhan Investments Co., Ltd. Stock	Subsidiary of the Company	"	40,000	527,655	100.00	527,655	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets - noncurrent	861	205,359	-	205,359	-
The Company	eGalax_eMPIA Technology Inc. Stock	-	"	1,237	120,636	-	120,636	-
The Company	INPAQ Technology Co., Ltd. Stock	-	"	1,117	34,407	-	34,407	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	Financial assets carried at cost - noncurrent	7,500	300,000	-	-	-

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/ Thousands of NT\$

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Gain (Loss) on Disposal	Valuation Gain (Loss)	Ending Balance	
					Share	Amount	Share	Amount	Share	Amount	Carrying Value			Share	Amount
The Company	Fuh Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	107,699	1,490,000	107,699	1,490,793	1,490,000	793	-	-	-
The Company	Mega Diamond Bond Fund	"	-	-	-	-	91,476	1,093,000	91,476	1,093,658	1,093,000	658	-	-	-
The Company	Cathay Bond Fund	"	-	-	-	-	106,958	1,280,000	106,958	1,280,541	1,280,000	541	-	-	-
The Company	Fuh Hwa Benefit Fund	"	-	-	-	-	12,791	165,000	12,791	165,076	165,000	76	-	-	-
The Company	KGI at thirty	"	-	-	-	-	-	200,000	-	200,123	200,000	123	-	-	-

5. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital:

Unit: Thousand shares/ Thousands of NT\$

Acquiring Company	Name of Property	Transaction Date	Transaction Amount	Payment Status	Trading Entity	Nature of Relationship	If trading entity is a related company, Information on past acquisitions				Reference for decision on price	Purpose of Acquisition and Status of Usage	Other Terms
							Owner	Nature of Relationship	Transaction Date	Amount			
The Company	No. 15, Section 2, LiGongYi Rd, Wujie Township Yilan County, Taiwan 268	November 29, 2010	137,351	Settled on November 29, 2010	Industrial Development Bureau, Ministry of Economic Affairs-Lung Te (& Letzer) Ind'l Park Service Center	-	-	-	-	-	-	Normal	-

6. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None.

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NOTES TO FINANCIAL STATEMENTS (Continued)

7. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital:

Unit: Thousands of NT\$

Company Name	Related Party	Nature of Relationship	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	
The Company	Holy Stone Enterprise (H.K)	Subsidiary of H.S	Sales	1,236,766	9.76%	Next month-end 120 days	-	-	540,892	16.20%	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	Sales	1,017,209	8.02%	Next month-end 150 days	-	-	393,528	11.78%	-
The Company	INFORTECH (CHINA) Co., Ltd.	Subsidiary of H.S.I	Sales	406,307	3.20%	Month-end 120 days	-	-	110,471	3.31%	-
The Company	Holy Stone Polytech Co., Ltd.	Subsidiary of Holy Stone Holdings	Purchases	253,565	2.27%	Month-end 45 days	-	-	(30,194)	2.12%	-

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	540,892	3.26	-	-	134,013	-	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	393,528	2.55	-	-	73,169	-	-
The Company	INFORTECH (CHINA) Co., Ltd.	Subsidiary of H.S.I	110,471	4.45	-	-	-	-	-

9. Derivatives transaction:

Please refer to "Financial Statements Notes 4.2" to get the Company's derivatives transaction information in 2010.

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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 2010 is 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, 2010			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				Dec. 31, 2010	Dec. 31, 2009	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%	160,997	15,973	15,973	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	SAMORA	Investment activities	841,951	841,951	26,976	100.00%	903,904	74,688	67,754	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	631,482	(4,279)	(2,468)	Subsidiary of the Company
The Company	Taiwan Mahk Opt Co., Ltd.	Yilan County	Miniature camera and components manufacturing and selling. Optical machinery and precision machinery manufacturing and trading	-	75,350	-	-	-	-	(2,351)	Subsidiary of the Company; Dissolved in December 2010
The Company	Martek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	20,000	8,500	100.00%	156,402	61,263	61,263	Subsidiary of the Company
The Company	Rong Jhan Investments Co., Ltd.	Taipei City	Investment activities	340,000	340,000	40,000	100.00%	527,655	53,682	53,682	Subsidiary of the Company
Holy Stone Holdings	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	USD 6,900,000	USD 6,900,000	6,900	100.00%	USD 7,763,240	USD (216,573)	USD (216,573)	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 225,418	USD 21,693	USD 21,693	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings	Green Glory Holdings Ltd.	SOMOA	Investment activities	USD 2,140,624	USD 2,140,624	2,210	100.00%	USD 1,455,187	USD 356,540	USD 356,540	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	USD 13,976,000	2,500	100.00%	USD 16,621,711	Note	Note	Subsidiary of Holy Stone Holdings Co., Ltd.
	Holy Stone Polytech Co., Ltd.			JPY 483,000,000	-	4,830	98.57%	USD 5,875,579	JPY (5,387,000)	USD (60,533)	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 5,255,050	CNY (2,177,636)	USD (353,085)	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 2,100,000	2,100	100.00%	USD 2,473,048	CNY 932,960	USD 138,265	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 1,500,000	1,500	100.00%	CNY 1,438,619	CNY (29,018)	CNY (29,018)	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 198,668	CNY 193,812	USD 28,723	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 819,083	CNY 26,389	USD 3,911	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 357,550	USD 257,335	USD 257,335	Subsidiary of Green Glory Holdings
Green Glory Holdings	HOLYSTONE (EUROPE) LTD.	England	Electronic retailing and trading	USD 686,873	USD 686,873	350	100.00%	USD 258,778	GBP 62,160	USD 96,111	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	39.16%	27,920	(33,459)	(15,371)	UHOLY's investee company recognized under equity method
Holy Stone Healthcare Co., Ltd.	Holygene Corporation	British Virgin Islands	Investment activities	USD 1,266,000	USD 1,266,000	1,266	29.79%	(11,513)	USD (2,676,114)	(25,189)	Holy Stone Healthcare's Investee company recognized under equity method
Holy Stone Healthcare Co., Ltd.	MDT INTL SA	Switzerland	Medical instruments trading	CHF 1,275,000	CHF 1,275,000	1,275	50.00%	32,672	CHF (164,889)	(2,398)	Subsidiary of Holy Stone Healthcare Co., Ltd.
Holy Stone Healthcare Co., Ltd.	GLOBAL SEARCH HOLDINGS LTD.	SOMOA	Investment activities	USD 150,000	USD 150,000	150	100.00%	4,298	USD (839)	(26)	Subsidiary of Holy Stone Healthcare Co., Ltd.
The Company	OHGA Electronics Co., Ltd.	Taipei County	Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70%	397,816	71,283	49,898	Subsidiary of Rong Jhan Investments Co., Ltd.

Note: The subsidiaries have recognized relevant income.

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2. Financing to related parties: None.
3. Endorsement/guarantee provided: None;
4. Marketable securities held:

Unit: Thousands of NT\$ / Thousand shares

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010				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		USD 324,570	-	USD 324,570	-
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	6,	USD 7,763,240	100.00	USD 7,763,240	-
Holy Stone Holdings Co., Ltd.	Holypaq Corporation Stocks	Subsidiary of H.S.H	Long-term equity investment	1,	USD 225,418	100.00	USD 184,643	-
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,	USD 1,455,187	100.00	USD 1,455,187	-
Holy Stone Holdings Co., Ltd.	Mayatek Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,	USD 16,621,711	100.00	USD 4,462,874	-
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	48,	USD 5,875,579	98.57	JPY 477,683,048	-
Holy Stone Investments Co., Ltd.	Holy Stone international trading (Shanghai) Co., Ltd. Stocks	Subsidiary of H.S.I	Long-term equity investment	4,	USD 5,255,050	100.00	CNY 34,481,955	-
Holy Stone Investments Co., Ltd.	INFORTECH (CHINA) CO., LTD. Stocks	Subsidiary of H.S.I	Long-term equity investment	2,	USD 2,473,048	100.00	CNY 16,227,349	-
INFORTECH (CHINA) CO., LTD	Zierra (Wuhan) Electronic Tech Co, Ltd. Stocks	Subsidiary of INFORTECH	Long-term equity investment	1,	CNY 1,438,619	100.00	CNY 1,438,619	-
Holypaq Corporation	HolyPAQ (Dongguan) Corporation Stocks	Subsidiary of Holypaq Corporation	Long-term equity investment	1,	USD 198,668	100.00	CNY 1,303,597	-
Green Glory Holdings Ltd.	INFORTECH International Trading (Shanghai) Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	1,	USD 819,083	100.00	CNY 5,374,561	-
Green Glory Holdings Ltd.	Milestone Global Technology Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment		USD 357,550	100.00	USD 357,550	-
Green Glory Holdings Ltd.	Holystone (Europe) Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment		USD 258,778	100.00	GBP 166,813	-
UHOLY Investments Co. Ltd.	Fuh Hwa Fund	-	Financial assets at fair value through profit or loss	3,	53,318	-	53,318	-
UHOLY Investments Co. Ltd.	NAK Stocks	-	Financial assets at fair value through profit or loss		2,385	-	2,385	-
UHOLY Investments Co. Ltd.	Stock of Holy Stone Healthcare Co. Ltd. Stocks	Subsidiary of UHOLY Investments Co. Ltd.	Long-term equity investment	6,	27,923	39.16	27,923	-
UHOLY Investments Co. Ltd.	EETI Stocks	-	Available-for-sale financial assets - noncurrent	5,	528,907	-	528,907	-
UHOLY Investments Co. Ltd.	INPAQ Technology Co., Ltd. Stocks	-	Available-for-sale financial assets - noncurrent	8,	260,073	-	260,073	-
UHOLY Investments Co. Ltd.	Innovation Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	8,	89,000	-	89,000	-
UHOLY Investments Co. Ltd.	C2 MICROSYSTEMS INC. Preferred stocks	-	Financial assets carried at cost - noncurrent	1,	29,809	-	29,809	-
UHOLY Investments Co. Ltd.	Zelltek Technology Corp. Stocks	-	Financial assets carried at cost - noncurrent		19,757	-	19,757	-
UHOLY Investments Co. Ltd.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent		2,994	-	2,994	-
UHOLY Investments Co. Ltd.	Innostone Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	5,	59,000	-	59,000	-
Holy Stone Healthcare Co.	Holygene Corporation Stocks	-	Long-term equity investment	1,	(11,513)	29.79	USD (395,220)	-
Holy Stone Healthcare Co.	MDT INT'L SA Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	1,	32,672	50.00	CHF 1,051,567	-
Holy Stone Healthcare Co.	Global Search Holdings Ltd. Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment		4,298	100.00	USD 147,548	-
Holy Stone Healthcare Co.	Fuh Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	2,	35,058	-	35,058	-

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010				Note
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
Rong Jhan Investments Co.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent		4,500	-	4,500	-
Rong Jhan Investments Co.	Grand Fortune Securities Co., Ltd Stocks	-	Financial assets carried at cost - noncurrent	5,	45,000	-	45,000	-
Rong Jhan Investments Co.	INPAQ Technology Co., Ltd. Stocks	-	Available-for-sale financial assets - noncurrent		21,560	-	21,560	-
Rong Jhan Investments Co.	OHGA Electronics Co., Ltd. Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	15,	397,816	70.00	230,711	-
Rong Jhan Investments Co.	Fuh Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current		2,567	-	2,567	-
Rong Jhan Investments Co.	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	1,	18,071	-	18,071	-
Rong Jhan Investments Co.	Cathay MAN AHL Diversified Future Fund	-	Financial assets at fair value through profit or loss - current		5,190	-	5,190	-
Rong Jhan Investments Co.	Taiwan Hon Chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current		6,783	-	6,783	-
Rong Jhan Investments Co., Ltd.	Makalot Industrial Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current		3,768	-	3,768	-
OHGA Electronics Co., Ltd.	Catcher Corporate Bond A	-	Financial assets at fair value through profit or loss - current		10,100	-	10,100	-
OHGA Electronics Co., Ltd.	TMTEC Corporate Bond B	-	Financial assets at fair value through profit or loss - current		20,706	-	20,706	-

5. 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 of shares/ Thousand units/ USD

Holding Company	Marketable Securities Type and Name	Financial Statement Account	Trade Purpose	Relationship with the Company	Beginning of Period		Acquisition		Disposal				End of Period	
					Shares (Units)	Value	Shares (Units)	Value	Shares (Units)	Price	Carrying Cost	Gain or Loss on Disposal	Shares (Units)	Value
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd. Stocks	Long-term equity investment	Cash Capital Increase	Subsidiary of H.S.H.	-	-	4,830	USD 5,365,352	-	-	-	-	4,830	USD 5,365,352

6. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: None.

7. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None.

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

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Holy Stone Enterprise (H.K) Co., Ltd.	The Company	Subsidiary of H.S	Purchases	1,236,766	100.00 %	Next month-end 120 days	-	-	(540,892)	100.00%	-
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Subsidiary of H.S.I	Purchases	1,017,209	90.09 %	Next month-end 150 days	-	-	(393,528)	99.96%	-
INFORTECH (CHINA) CO., LTD.	The Company	Subsidiary of H.S.I	Purchases	406,307	97.29 %	Month-end 120 days			(110,471)	89.49%	
Holy Stone Polytech Co., Ltd.	The Company	Subsidiary of H.S.H	Sales	253,565	42.99%	Month-end 45 days			30,194	18.79%	

English Translations of Notes Originally Issued in Chinese

Holy Stone Enterprise Company Limited

NOTES TO FINANCIAL STATEMENTS (Continued)

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 2010:

No.	Company Name	Derivative	Nominal Principal (thousand)	Term	Fair Value
1	Martek Co.	Forward Foreign Exchange Contract	USD 280	12.06.2010-01.07.2011	332
1	Martek Co.	Forward Foreign Exchange Contract	USD 800	11.23.2010-01.07.2011	719
1	Martek Co.	Forward Foreign Exchange Contract	USD 1,000	11.03.2010-01.07.2011	907
1	Martek Co.	Forward Foreign Exchange Contract	USD 1,000	11.18.2010-02.11.2011	900
1	Martek Co.	Forward Foreign Exchange Contract	USD 1,000	12.20.2010-03.07.2011	395
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	10.12.2010-01.11.2011	712
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	10.12.2010-02.11.2011	712
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 300	12.29.2010-01.11.2011	(31)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 700	12.29.2010-03.11.2011	(82)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 400	12.31.2010-02.11.2011	(137)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 600	12.31.2010-04.11.2011	(211)

Investee companies recognized financial assets at fair value through profit or loss – current of \$3,511 thousand in 2010.

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, 2009	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2010	Ownership Held by The Company (Direct and Indirect)	Current Recognized Investment Gain (Loss) (Note 2)	Ending Balance of Investment	The Investment Gain (Loss) Remitted as of Dec. 31, 2010
					Remitted	Collected					
Holy Stone International trading (Shanghai) Co., Ltd.	Capacitors selling	USD 4,010,000	The Company set up a subsidiary in a third place to invest in Mainland China.	USD 3,610,000 (Note 1)	-	-	USD 3,610,000 (Note 1)	100 %	USD (353,085)	USD 5,255,050	-
HolyPAQ (Dongguan) Corporation	Capacitors manufacturing and selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100 %	USD 28,723	USD 198,668	-
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 3,911	USD 819,083	-
INFORTECH (CHINA) CO., LTD.	Electronic components selling	USD 2,100,000		USD 2,100,000	-	-	USD 2,100,000	100 %	USD 138,265	USD 2,473,048	-

Note 1: Excluding USD400,000 of capitalization of profits.

Note 2: Financial statement account audited by parent company's accountants.

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)	(USD 8,110,000)	5,624,577
224,592	236,244	

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\$8,165,880 thousand and NT\$9,020,579 thousand in 2010 and 2009, and the details are as follows:

<u>Area</u>	<u>2010</u>	<u>2009</u>
Europe	\$ 105,874	67,915
Americas	144,592	112,372
Asia	7,913,259	8,839,143
Others	<u>2,155</u>	<u>1,149</u>
Total	\$ <u>8,165,880</u>	<u>9,020,579</u>

12.4 Major Customers

For the year ended December 31, 2010, sales to customers representing more than 10% of revenue are as follows:

	<u>2010</u>	
	<u>Net revenue</u>	<u>% of net revenue</u>
Customer C	\$ <u>1,705,904</u>	<u>13.45</u>

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

Representation Letter

The entities that are required to be included in the combined financial statements of Holy Stone Enterprise Company Limited as of and for the year ended December 31, 2010, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Holy Stone Enterprise Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang

Date: March 3, 2011

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, 2010 and 2009, 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\$2,842,094 thousand and NT\$2,488,600 thousand as of December 31, 2010 and 2009, respectively, a 19.27 percent and 19.13 percent of total consolidated assets; consolidated revenues of 2010 and 2009 totaled NT\$2,464,682 thousand and NT\$2,011,482 thousand, respectively, a 16.56 percent and 15.21 percent of total consolidated revenues. Furthermore, as of December 31, 2009, the long-term equity investment amounts accounted for under equity method were audited by another CPA, totaled NT\$3,786 thousand, and the related net investment loss of NT\$5,899 thousand for the year ended December 31, 2009. 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, 2010 and 2009, 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

March 3, 2011

English Translations of Consolidated Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2010 and 2009

(Expressed in Thousands of New Taiwan Dollars)

Assets	12.31.2010		12.31.2009		Liabilities and stockholders' equity	12.31.2010		12.31.2009	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (Note 4.1)	\$ 2,295,905	16	2,481,213	19	Short-term loans (Note 4.9 and 6)	\$ 1,254,104	9	1,148,575	9
Financial assets at fair value through profit or loss-current (Note 4.2, 4.11)	481,837	3	702,445	5	Financial liabilities at fair value through profit or loss-current (Note 4.2)	-	-	34	-
Notes and accounts receivable, net (Note 4.3)	3,722,755	25	3,199,528	25	Notes and Accounts Payable	1,607,883	11	1,228,440	9
Other financial assets-current (Note 6)	165,716	1	156,360	1	Payables to related parties (Note 5)	13,744	-	15,548	-
Inventories, net (Note 4.4)	2,565,368	17	1,680,063	13	Income tax payable	74,827	1	140,640	1
Prepaid expenses and other current assets (Note 4.13)	127,329	1	91,539	1	Accrued expenses and other current liabilities	541,576	4	510,474	4
Total current assets	9,358,910	63	8,311,148	64	Current portion of long-term debt (Note 4.10 and 6)	146,333	1	125,417	1
					Total current liabilities	3,638,467	26	3,169,128	24
Funds and investments:					Long-term liabilities				
Long-term equity investments under equity method (Note 4.5)	-	-	3,786	-	Corporate bonds payable (Note 4.11)	661,864	4	-	-
Available-for-sale financial assets-noncurrent (Note 4.2)	1,171,604	8	1,065,743	8	Long-term debt (Note 4.10 and 6)	369,500	3	1,016,833	8
Financial assets carried at cost-noncurrent (Note 4.2)	550,060	4	508,894	4	Total long-term liabilities	1,031,364	7	1,016,833	8
Total funds and investments	1,721,664	12	1,578,423	12	Other liabilities:				
					Accrued pension liabilities (Note 4.12)	26,732	-	21,466	-
Property, plant and equipment: (Note 4.6 and 6)					Deferred tax liabilities (Note 4.13)	28,228	-	30,640	-
Land	760,026	5	460,179	4	Other liabilities (Note 4.5)	12,089	-	2,433	-
Buildings	1,343,722	9	1,224,985	9	Total other liabilities	67,049	-	54,539	-
Machinery and equipment	1,463,767	10	1,343,825	10	Total liabilities	4,736,880	33	4,240,500	32
Leasing assets	47,568	-	47,568	-	Stockholders' equity (Note 4.11, 4.12 and 4.14):				
Other equipment	247,854	2	199,125	2	Common stock	3,202,175	21	2,872,175	22
Subtotal	3,862,937	26	3,275,682	25	Capital surplus	3,652,343	24	2,763,032	21
Less: Accumulated depreciation	(1,037,776)	(7)	(807,426)	(6)	Retained earnings:				
Accumulated Impairment	-	-	(680)	-	Legal reserve	776,837	5	691,876	5
Construction in progress and prepayments for equipment	227,149	2	38,498	-	Unappropriated earnings	1,258,972	9	1,373,352	11
Net property, plant and equipment	3,052,310	21	2,506,074	19		2,035,809	14	2,065,228	16
Intangible assets (Note 4.7)	596,853	4	606,107	5	Others:				
Other assets (Note 4.8)	20,972	-	7,541	-	Cumulative translation adjustments	(24,681)	-	34,041	-
					Net loss unrecognized as pension cost	(20,223)	-	(15,783)	-
					Unrealized gain or loss on financial instruments	528,873	4	454,949	4
						483,969	4	473,207	4
					Equity attributable to stockholders of the parent	9,374,296	63	8,173,642	63
					Minority interest	639,533	4	595,151	5
					Total stockholders' equity (Note 7)	10,013,829	67	8,768,793	68
					Commitments and contingencies				
Total assets	\$ 14,750,709	100	13,009,293	100	Total liabilities and shareholders' equity	\$ 14,750,709	100	13,009,293	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, 2010 and 2009

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

	2010		2009	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Gross sales	\$ 14,974,052	101	13,343,996	101
Less: Sales returns and allowances	<u>(94,427)</u>	<u>(1)</u>	<u>(120,925)</u>	<u>(1)</u>
Net sales	14,879,625	100	13,223,071	100
Cost of goods sold (Note 4.4 and 5)	<u>(12,755,396)</u>	<u>(86)</u>	<u>(11,133,223)</u>	<u>(84)</u>
Realized gross profit	<u>2,124,229</u>	<u>14</u>	<u>2,089,848</u>	<u>16</u>
Operating expenses:				
Selling and administrative	(1,048,344)	(7)	(982,776)	(7)
Research and development	<u>(127,220)</u>	<u>(1)</u>	<u>(99,800)</u>	<u>(1)</u>
	<u>(1,175,564)</u>	<u>(8)</u>	<u>(1,082,576)</u>	<u>(8)</u>
Operating income	<u>948,665</u>	<u>6</u>	<u>1,007,272</u>	<u>8</u>
Non-operating income and gains:				
Interest income	15,775	-	16,416	-
Dividend income	29,980	-	20,903	-
Gain on disposal of investments	102,864	1	32,408	-
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 and 4.11)	38,523	-	12,588	-
Others	<u>33,269</u>	<u>-</u>	<u>114,722</u>	<u>1</u>
	<u>220,411</u>	<u>1</u>	<u>253,616</u>	<u>1</u>
Non-operating expenses and losses:				
Interest expenses (Note 4.11)	(23,443)	-	(16,283)	-
Investment loss recognized under equity method (Note 4.5)	(25,189)	-	(5,899)	-
Loss on disposal of property, plant and equipment	-	-	(22,938)	-
Foreign exchange loss	(107,585)	(1)	(18,084)	-
Loss on valuation of financial liabilities (Note 4.2)	-	-	(34)	-
Others	<u>(11,671)</u>	<u>-</u>	<u>(20,124)</u>	<u>-</u>
	<u>(167,888)</u>	<u>(1)</u>	<u>(83,362)</u>	<u>-</u>
Consolidated income before income tax	1,001,188	6	1,177,526	9
Income tax expense (Note 4.13)	<u>(171,070)</u>	<u>(1)</u>	<u>(256,489)</u>	<u>(2)</u>
Consolidated net Income	<u>\$ 830,118</u>	<u>5</u>	<u>921,037</u>	<u>7</u>
Attributable to:				
Stockholders of the parent	\$ 832,234	5	849,611	6
Minority interest	<u>(2,116)</u>	<u>-</u>	<u>71,426</u>	<u>1</u>
	<u>\$ 830,118</u>	<u>5</u>	<u>921,037</u>	<u>7</u>
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>income tax</u>	<u>income tax</u>	<u>income tax</u>	<u>income tax</u>
Earnings per share (Note 4.15) (in NTD)				
Basic earnings per share	<u>\$ 3.23</u>	<u>2.77</u>	<u>3.61</u>	<u>3.61</u>
Diluted earnings per share	<u>\$ 3.09</u>	<u>2.65</u>	<u>3.55</u>	<u>3.55</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, 2010 and 2009

(Expressed in Thousands of New Taiwan Dollars)

	Retained Earnings				Others			Total Stockholders' 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		Minority Interest
Balance, January 1, 2009	\$ 2,806,456	2,741,791	624,427	1,096,352	73,076	(6,406)	(29,569)	345,621	7,651,748
Bonus to employees - in stock	9,590	15,410	-	-	-	-	-	-	25,000
Net income for the twelve months ended December 31, 2009	-	-	-	849,611	-	-	-	71,426	921,037
Appropriations of prior year's earnings (Note 4.13) (Remark 1):									
Legal capital reserve	-	-	67,449	(67,449)	-	-	-	-	-
Common stock cash dividends	-	-	-	(449,033)	-	-	-	-	(449,033)
Capitalization of prior year's earnings	56,129	-	-	(56,129)	-	-	-	-	-
Change in gains and losses of available-for-sale financial assets	-	-	-	-	-	-	191,378	-	191,378
Change of net loss not recognized as pension cost	-	-	-	-	-	(9,377)	-	-	(9,377)
Change in exchange differences in foreign currency financial statements translation	-	-	-	-	(39,035)	-	-	-	(39,035)
Changes in minority interest	-	-	-	-	-	-	-	178,104	178,104
Adjustment due to change of investee's equity	-	5,831	-	-	-	-	293,140	-	298,971
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
Issuance of common stock for cash	330,000	742,504	-	-	-	-	-	-	1,072,504
Issuance of convertible bonds recognized as equity items – warrants	-	113,267	-	-	-	-	-	-	113,267
Net income for the twelve months ended December 31, 2010	-	-	-	832,234	-	-	-	(2,116)	830,118
Appropriations of prior year's earnings (Note 4.13) (Remark 2):									
Legal capital reserve	-	-	84,961	(84,961)	-	-	-	-	-
Common stock cash dividends	-	-	-	(861,653)	-	-	-	-	(861,653)
Change in gains and losses of available-for-sale financial assets	-	-	-	-	-	-	32,709	-	32,709
Change of net loss not recognized as pension cost	-	-	-	-	-	(4,440)	-	-	(4,440)
Change in exchange differences in foreign currency financial statements translation	-	-	-	-	(58,722)	-	-	-	(58,722)
Changes in minority interest	-	-	-	-	-	-	-	46,498	46,498
Adjustment due to change of investee's equity	-	8,790	-	-	-	-	41,215	-	50,005
Remuneration for stock-based payment	-	24,750	-	-	-	-	-	-	24,750
Balance, December 31, 2010	\$ 3,202,175	3,652,343	776,837	1,258,972	(24,681)	(20,223)	528,873	639,533	10,013,829

Remark 1: Remuneration to directors and supervisors (NT\$15,100 thousand) and employee bonus (NT\$50,500 thousand) were deducted from income statement.

Remark 2: Remuneration to directors and supervisors (NT\$22,313 thousand) and employee bonus (NT\$119,005 thousand) were deducted from income statement.

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 Cash Flows

For the years ended December 31, 2010 and 2009

(Expressed in Thousands of New Taiwan Dollars)

	2010	2009
Cash flows from operating activities:		
Consolidated net income	\$ 830,118	921,037
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	239,912	227,557
Amortization	6,286	7,908
Allowance (reversal) for doubtful accounts	3,138	(20,394)
Share-based payment as remuneration	24,750	-
Discount amortization on bonds payable	4,445	-
Loss on retirement and valuation of inventory	14,932	(39,432)
Investment loss accounted for using equity method	25,189	5,899
Loss (gain) on disposal of property, plant and equipment	(457)	23,055
Gain on disposal of financial assets	(96,952)	(18,655)
Impairment loss on financial assets	3,834	-
Gain on buyback of bonds payable	-	(6)
Deferred income tax expense (benefit)	11,110	34,094
Changes in assets and liabilities:		
Changes in assets:		
Decrease (increase) in financial assets for trading purposes	291,294	(325,838)
Decrease (increase) in notes and accounts receivable	(526,365)	36,270
Decrease (increase) in inventories	(900,237)	323,759
Decrease in prepaid expenses and other current assets	(35,827)	77,030
Decrease (increase) in other financial assets - current	(9,356)	(32,489)
Changes in liabilities:		
Increase (decrease) in financial liabilities for trading purposes	(34)	34
Increase (decrease) in notes and accounts payable	379,443	(35,860)
Decrease in payables from related parties	(1,804)	(3,031)
Increase (decrease) in income tax payable	(65,813)	94,778
Increase in accrued expenses and other current liabilities	3,566	40,776
Decrease in accrued pension liabilities	826	(651)
Net cash provided from operating activities	<u>201,998</u>	<u>1,315,841</u>
Cash flows from investing activities:		
Acquisition of available-for-sale financial assets	(18,502)	(24,342)
Proceeds from sale of available-for-sale financial assets	111,501	58,758
Acquisition of financial assets carried at cost	(45,000)	(8,701)
Increase in long-term equity investments	-	(8,931)
Additions to property, plant and equipment	(768,197)	(300,316)
Proceeds from sale of property, plant and equipment	4,758	9,374
Increase in intangible assets	(30,453)	(54,491)
Decrease (increase) in other assets	(8,664)	1,032
Net cash used in investing activities	<u>(754,557)</u>	<u>(327,617)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(19,888)	491,606
Issuance of corporate bond	700,000	-
Buyback and cancellation of bonds payable	-	(126,794)
Borrowing of long-term loans	150,000	5,000
Repayment of long-term loans	(651,000)	(51,000)
Decrease in other liabilities	(1,857)	(550)
Cash dividends	(861,653)	(449,033)
Increase in cash capital	1,072,504	-
Decrease in minority interest	21,029	(15,820)
Net cash used in financing activities	<u>409,135</u>	<u>(146,591)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(32,645)</u>	<u>(10,791)</u>
Effect of consolidated entity changes in cash and cash equivalents	<u>(9,239)</u>	<u>(5,998)</u>
Net increase (decrease) in cash and cash in banks	<u>(185,308)</u>	<u>824,844</u>
Cash and cash in banks at beginning of period	<u>2,481,213</u>	<u>1,656,369</u>
Cash and cash in banks at end of period	<u>\$ 2,295,905</u>	<u>2,481,213</u>
Supplemental disclosure of cash flow information:		
Interest paid, excluding capitalization of interest	<u>\$ 16,394</u>	<u>16,108</u>
Income tax paid	<u>\$ 222,218</u>	<u>134,364</u>
Supplemental information on non-cash investing and financing activities:		
Current portion of bonds payable and long-term debt	<u>\$ 146,333</u>	<u>125,417</u>
Unrealized gain or loss on evaluation on financial instruments	<u>\$ (32,709)</u>	<u>(191,378)</u>
Unrealized gain or loss from changes in financial instruments from long-term equity investments	<u>\$ (41,215)</u>	<u>(293,140)</u>
Changes in capital reserve from long-term equity investments	<u>\$ (8,790)</u>	<u>(5,831)</u>
Cash used in acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	\$ (796,233)	(257,221)
Change in payables at end of period	28,036	(43,095)
Payment in cash	<u>\$ (768,197)</u>	<u>(300,316)</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, 2010 AND 2009
(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, 2010 and 2009, 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	
		2010	2009
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
MARTEK CO., LTD. ("MARTEK", Taiwan)	The Company	100.00	100.00
OHGA Electronic Co., Ltd. ("OHGA", Taiwan)	RONG JHAN INVESTMENT CO., LTD.	70.00	70.00
Mayatek Co., Ltd. (Mayatek · Belize)	HSH	100.00	100.00
Holystone Polytech Co., Ltd. (HPC, Japan)	HSH	98.57	-
Holy Stone International Trading (Shanghai) Co., Ltd. ("Holy Stone Shanghai", China)	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
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
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	
		2010	2009
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	22.59	28.63

(3) Wholesale of drugs and medical goods

	Investor	Percentage of the direct and indirect ownership by the Company at December 31	
		2010	2009
1. Holy Stone Healthcare Co., Ltd. ("Holy Stone Healthcare", Taiwan)	UHOLY	22.59	28.63
2. MDT INT'L SA ("MDT", Switzerland)	Holy Stone Healthcare	11.30	14.31

In 2010 and 2009, the Company included investee companies with direct and indirect ownership of no more than 50 percent in the consolidated financial statements as having business control based on the Statements of Financial Accounting Standards No.7 "Consolidated Financial Statements."

In 2010, HSH invested in HPC, which is included in the consolidated financial statements since January 2010.

Taiwan MAHK OPT. CO., Ltd. was dissolved in 2010 and taken out from the Consolidated Companies.

As of December 2010 and 2009, the Consolidated Companies had 1,318 and 1,157 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 net purchase price and 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 in domestic dollars. For non-derivative foreign currency transactions, the prevailing exchange rates on the transaction date are recorded. On 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 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 designated purposes, and are not assets held for trading purposes, or assets expected to be converted to cash, sold or consumed within one year from the balance sheet date; others are all noncurrent assets.

Current liabilities are obligations that will be settled within one year from the balance sheet date or obligations expected to be settled by the normal operating process of the enterprise; others are all noncurrent liabilities.

(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 no longer exist or decrease, 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 for financial instrument transactions. Financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition except those with trading purposes. 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 were valid hedging instruments. Any profit or loss recognized at fair value should be recorded on the period's 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 for equity securities decreases, 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 cannot 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 operating, financing and investing 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 made are recognized as interest revenue or expense, and capital gains or losses are recognized as other gains or losses.

If the derivatives are to hedge 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

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

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 to income and loss.

(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, elapsed time, 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 is an unavoidable expenditure to make inventories, whether work in process or finished, available for sale through different channels. 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 once incurred.

(9) Long-term equity investments

Investments in companies wherein the Consolidated Companies hold directly or indirectly over 20% shareholdings with voting rights or hold less than 20% but exercise significant influence over the operating and financing 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; those from the book value and the fair value of assets should abate the relevant unamortized remains at a time when overestimation or underestimation incurred. 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 the market price and carrying value on that day. If there are any capital surplus remaining from long-term investments and any differences between the cost and net value of the investments,

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

the Company should record them as net income or loss for current period in proportion to sales.

If the Consolidated Companies and the equity method investees have 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 retained 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. Depreciation on property, plant and equipment, maintained to be usable after the expiration of useful life, can continue to be recognized and computed over estimated service lives of the residual.

For cost associated with dismantling and restoring the leased premises housing 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)'s No. 2008-340 issued 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, intellectual property rights, software, and so on are the main intangible assets. In accordance with SFAS No. 37 "Intangible Assets," other than that granted by the government, which is measured at its fair value, an intangible asset is measured initially at cost. After the initial recognition, intangible assets are measured at 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 has 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 is 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 else it would 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 developmental 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.

(12) Convertible Bond

The convertible bonds issued by the Company create financial liability and give the holders' right to convert at the same time. According to SFAS, No.36's "Financial Instruments: Disclosure and Presentation" stated that convertible bonds are hybrid financial instruments. Initial transaction cost is to be accounted proportionally as convertible liability and equity component. The proportion of convertible bonds as liability is taken as the difference between the value of convertible bonds and equity-irrelevant components, in other words, liability at fair value. Changes in equity of convertible bonds are not recognized. Interests on convertible bonds are spread proportionally to the contract period and recognized as gains and losses for that period. Derivative financial liability, on the other hand, is accounted at fair value, with changes recorded as gains or losses during the period. When the holders exercise their convertible rights, the value of common stock is calculated as liability component, adjusted as the face value at the time of the conversion, plus equity component.

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

(13) Pension Cost

In 1984, the Company established the employee retirement and resignation policy which applies to all hired employees. According to that mechanism, the payment of employee pension is the sum of principal and interests of individual deposit and corporate funds. 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 past 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, the percentage is lowered to 3%, and from July, 2007, to 2%.

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 Taiwan’s bank.

The Consolidated Companies conducts the actuarial calculation on liabilities of pension fund yearly on 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 on 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 not regulated.

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

(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.

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.

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

(16) Director and Supervisor Remuneration and Employee Bonus

The Company and Consolidated Companies 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 requires companies to first project future remuneration and bonuses, and to account these as operating costs and expenses semiannually. If a difference exists after the shareholders' meeting, the difference should be accounted as gain or loss for the period.

(17) Income Tax

The Consolidated Companies recognize deferred income tax based on the difference between the carrying value of the assets and liabilities and tax basis, and calculate 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.

(18) 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

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.

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4. Accounts Statement

4.1 Cash and Cash Equivalents

Details:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Cash on hand	\$ 2,509	2,558
Current deposit	1,922,597	2,095,255
Checking account	67,010	26,380
Deposit account	303,789	256,846
Cash equivalents-repurchase bonds	-	100,174
	<u>\$ 2,295,905</u>	<u>2,481,213</u>

4.2 Financial Instrument

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

	<u>12.31.2010</u>	<u>12.31.2009</u>
Foreign stocks	\$ 32,228	43,005
Bonds	253,981	457,189
Open-ended funds	134,119	194,863
Foreign exchange swap contracts	30,315	6,921
Foreign currency forward contracts	4,216	467
Right to call or put - Convertible bonds payable	26,978	-
Total	<u>\$ 481,837</u>	<u>702,445</u>

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

	<u>12.31.2010</u>	<u>12.31.2009</u>
Foreign currency forward contracts	<u>\$ -</u>	<u>34</u>

For the years ended December 31, 2010 and 2009, changes in fair value related to derivative financial instruments recognized in earnings were net gains of NT\$38,523 thousand and NT\$12,554 thousand, respectively.

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The Consolidated Companies entered into derivative transactions to hedge foreign currency exchange risk and interest risk exposure. As of December 31, 2010 and 2009, details of derivatives not applied to hedging accounting are as follows:

(1) Foreign exchange swap contracts

12.31.2010		12.31.2009	
Principal (USD)	Term	Principal (USD)	Term
\$ 8,740,000	12.21.2010~01.04.2011	890,000	12.22.2009~01.05.2010
2,500,000	12.21.2010~01.04.2011	340,000	12.22.2009~01.05.2010
5,400,000	12.21.2010~01.04.2011	5,400,000	12.22.2009~01.05.2010
1,800,000	12.21.2010~01.04.2011	8,740,000	12.22.2009~01.05.2010
2,900,000	12.21.2010~01.04.2011	2,500,000	12.22.2009~01.05.2010
3,200,000	12.21.2010~01.04.2011	450,000	12.22.2009~01.05.2010
2,200,000	12.21.2010~01.04.2011	5,400,000	12.22.2009~01.05.2010
		1,800,000	12.22.2009~01.05.2010
		650,000	12.22.2009~01.05.2010
		2,900,000	12.22.2009~01.05.2010
		2,200,000	12.22.2009~01.05.2010
		3,200,000	12.22.2009~01.05.2010
\$ 26,740,000		34,470,000	

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

(2) Foreign currency forward contracts

	12.31.2010		
	Notional Principal	Currency	Expiry Date
Sales of foreign currency forward contracts	USD 280	USD to NTD	12.06.2010~01.07.2011
Sales of foreign currency forward contracts	USD 800	USD to NTD	11.23.2010~01.07.2011
Sales of foreign currency forward contracts	USD 1,000	USD to NTD	11.03.2010~01.07.2011
Sales of foreign currency forward contracts	USD 1,000	USD to NTD	11.18.2010~02.11.2011
Sales of foreign currency forward contracts	USD 1,000	USD to NTD	12.20.2010~03.07.2011
Sales of foreign currency forward contracts	USD 500	USD to NTD	10.12.2010~01.11.2011
Sales of foreign currency forward contracts	USD 500	USD to NTD	10.12.2010~02.11.2011
Sales of foreign currency forward contracts	USD 300	USD to NTD	12.29.2010~01.11.2011
Sales of foreign currency forward contracts	USD 700	USD to NTD	12.29.2010~03.11.2011
Sales of foreign currency forward contracts	USD 400	USD to NTD	12.31.2010~02.11.2011
Sales of foreign currency forward contracts	USD 600	USD to NTD	12.31.2010~04.11.2011
Total	USD 7,080		

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	12.31.2009			
	<u>Notional Principal</u>		<u>Currency</u>	<u>Expiry Date</u>
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	12.07.2009~02.09.2010
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	500	USD to NTD	12.07.2009~05.10.2010
Total	USD	<u>7,000</u>		

4.2.3 Available-for-sale financial assets - noncurrent

	<u>12.31.2010</u>	<u>12.31.2009</u>
GSI TECHNOLOGY INC. (GSIT)	\$ 205,359	193,657
eGalax_eMPIA Technology Inc. (EETI)	649,543	577,903
INPAQ Technology Co., Ltd. (INPAQ)	<u>316,702</u>	<u>294,183</u>
Total	<u>\$ 1,171,604</u>	<u>1,065,743</u>

4.2.4 Financial assets carried at cost - noncurrent

	<u>12.31.2010</u>	<u>12.31.2009</u>
Preferred stock – China Trust Commercial Bank	\$ 300,000	300,000
Private stock – C2 Microsystems Inc.	29,809	29,809
Private stock – Innovation Venture Capital Corp.	89,000	89,000
Private stock – Metanoia Communication Inc.	7,494	11,328
Private stock – Zelltek Technology Corp.	19,757	19,757
Private stock – Innostone Venture Capital Corp.	59,000	59,000
Private stock – Grand Fortune Securities Co., Ltd.	<u>45,000</u>	<u>59,000</u>
Total	<u>\$ 550,060</u>	<u>508,894</u>

4.3 Notes and Accounts Receivable

Details:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Notes receivable	\$ 168,228	150,473
Accounts receivable	3,618,695	3,118,859
Allowance for collectible accounts	<u>(64,168)</u>	<u>(69,804)</u>

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\$ 3,722,755 3,199,528

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4.4 Inventories

Details:

	12.31.2010	12.31.2009
Merchandise	\$ 1,614,070	1,091,273
Less: Allowance	(103,823)	(125,975)
Subtotal	1,510,247	965,298
Finished goods	398,953	302,871
Less: Allowance	(22,715)	(23,095)
Subtotal	376,238	279,776
Semi-finished goods	138,638	95,248
Less: Allowance	(11,208)	(7,769)
Subtotal	127,430	87,479
Work in process	155,697	119,891
Less: Allowance	(2,699)	(2,780)
Subtotal	152,998	117,111
Raw materials	397,569	230,874
Less: Allowance	(3,341)	(3,601)
Subtotal	394,228	227,273
Supplies	4,264	3,153
Less: Allowance	(37)	(27)
Subtotal	4,227	3,126
Total	\$ 2,565,368	1,680,063

For the years ended December 31, 2010 and 2009, the Consolidated Companies recognized related losses on inventories of NT\$11,039 thousand and (NT\$43,857) thousand, respectively.

In 2010, gains on inventories from the writeup of net realizable value was NT\$133,394 thousand. And in 2009, losses on inventories from the writedown of book value of inventories from cost to net realizable value was NT\$70,235 thousand.

4.5 Long-term Equity Investments

	12.31.2010			
<u>Investee Company</u>	<u>% of Ownership</u>	<u>Investment Cost</u>	<u>Carrying Amount</u>	<u>2010 Loss on Investment</u>
Valuation at equity:				
Holygene Corporation	29.79%	\$ 41,903	(11,513)	(25,189)
Details:				
	12.31.2009			
<u>Investee Company</u>	<u>% of Ownership</u>	<u>Investment Cost</u>	<u>Carrying Amount</u>	<u>2009 Loss on Investment</u>
Valuation at equity:				
Holygene Corporation	29.79%	\$ 41,903	3,786	(5,899)

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1. The Long-term investment book value balance on Holygene Corporation has lowered to zero, since the Consolidated Companies planned to own the investee and support its financials; therefore, investment losses are recognized based on the fixed percentage of ownership. In December 31, 2010, the credit incurred for long-term investment was NT\$11,513 thousand, and is listed under Other Liabilities.
2. In December 31, 2010 and 2009, long-term equity investments have not provided pledge collaterals.

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, 2010 and 2009 are summarized as follows:

	12.31.2010	12.31.2009
Assets leased to others-land	\$ 28,818	28,818
Assets leased to others-building	18,750	18,750
Subtotal	47,568	47,568
Accumulated depreciation	(4,503)	(4,135)
	\$ 43,065	43,433

4.7 Intangible assets

	Goodwill	Others	Total
Original cost:			
Balance at January 1, 2009	\$ 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
Balance at January 1, 2010	\$ 557,580	54,455	612,035
Additions	-	30,453	30,453
Foreign currency translation	(36,288)	-	(36,288)
Others	-	624	624
Balance at December 31, 2008	\$ 521,292	85,532	606,824
Accumulated translation:			
Balance at January 1, 2009	\$ -	-	-
Amortization	-	5,928	5,928
Balance at December 31, 2009	\$ -	5,928	5,928
Balance at January 1, 2010	\$ -	5,928	5,928
Amortization	-	3,914	3,914
Foreign currency translation	-	129	129
Balance at December 31, 2010	\$ -	9,971	9,971
Book value:			
Balance at January 1, 2009	\$ 565,915	72	565,987

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Balance at December 31, 2009	<u>\$ 557,580</u>	<u>48,527</u>	<u>606,107</u>
Balance at January 1, 2010	<u>\$ 557,580</u>	<u>48,527</u>	<u>606,107</u>
Balance at December 31, 2010	<u>\$ 521,292</u>	<u>75,561</u>	<u>596,853</u>

4.8 Idle Assets

	<u>12.31.2010</u>	<u>12.31.2009</u>
Machinery and equipment	\$ 61,238	61,238
Other equipment	<u>7,695</u>	<u>7,695</u>
Subtotal	68,933	68,933
Less: Accumulated depreciation	(7,854)	(7,854)
Accumulated impairment	<u>(61,079)</u>	<u>(61,079)</u>
Total	<u>\$ -</u>	<u>-</u>

4.9 Short-term Loans

Details:

	<u>12.31.2010</u>	<u>12.31.2009</u>
Purchases loans	<u>\$ 1,254,104</u>	<u>1,148,575</u>
Interest rate	<u>2010</u> <u>0.583%~1.63%</u>	<u>2009</u> <u>0.6265%~3.00%</u>

As of December 31, 2010 and 2009, the Consolidated Company's credit lines on short-term loans which have not been used from financial institutions were NT\$2,986,421 thousand and NT\$2,617,348 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>12.31.2010</u>	<u>12.31.2009</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.	\$ 365,833	\$ 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.	-	198,250
Bank of Taiwan, Xinyi Branch	The borrowing amount is NT\$200,000 thousand. With interest paid monthly from September 2008 and July 2011 and all principal paid on the expiration date.	-	200,000
First Bank, Neihu	The borrowing amount is NT\$350,000 thousand. With interest paid monthly from September 2008 to December 2013, and principal paid	-	300,000

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Branch	quarterly based on the average amortization method since the third year, meaning a two-year deferred period of principal payment.		
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
Taiwan Corporative Bank, Jhonghe Branch	From May 31, 2010 to May 31, 2025, interest paid is monthly, with principal paid based on the average amortization method starting from the third year, meaning a two-year deferred period of principal payment.	150,000	-
	Subtotal	<u>515,833</u>	<u>1,142,250</u>
Less: Current portion		<u>(146,333)</u>	<u>(51,000)</u>
		<u>\$ 369,500</u>	<u>1,016,833</u>

1. The Consolidated Company's short-term loans take the assets listed on "Notes 6" as collaterals.
2. The aforementioned interests are paid in floating interest rate, with an approximation of 0.920 percent to 1.520 percent and 0.910 percent to 2.673 percent in 2010 and 2009, respectively.
3. As of December 31, 2010 and 2009, long-term loans not be used by the Consolidated Companies totaled NT\$0 and NT\$907,750 thousand, respectively.
4. As of December 31, 2010, the loan balance should be paid as follows:

<u>Period</u>	<u>Amount</u>
01.01.2011~12.31.2011	\$ 146,333
01.01.2012~12.31.2012	152,535
01.01.2013~12.31.2013	83,908
01.01.2014~12.31.2014	10,882
01.01.2015~12.31.2015	11,024
01.01.2016 onwards	<u>111,151</u>
	<u>\$ 515,833</u>

4.11 Bonds Payable

Details:

	<u>12.31.2010</u>
Total proceeds from issuing convertible bonds	\$ 700,000
Discount in bonds payable	(38,136)
Balance of bonds payable at the end of period	<u>\$ 661,864</u>
Derivative financial instrument—redemption (buy) and sell (financial assets included in gains or losses in fair value – current)	<u>\$ 26,978</u>
Equity components (included in capital reserve-options)	<u>\$ 113,267</u>
	<u>2010</u>
Derivative financial instrument—redemption (buy) and sell (Change in fair value recorded as evaluation loss)	<u>\$ 43,708</u>
Interest Expense	<u>\$ 4,445</u>

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Third issuance of domestic unsecured convertible bond has an interest rate of 0%, with 5-year term, from June 23, 2010 to June 23, 2015. Starting from a full month after issuance until forty days before maturity, the Company can implement an early redemption; thirty days before a full two-year period, three-year period, and four-year period, bond holders can request the Company to redeem the bonds at interests at 100%, 100% and 101% on top of the face value, respectively. From the first full month after issuance until ten days before maturity, bond holders can convert to common stock at the convertible value to-date calculated by the conversion method. For December 31, 2010, the convertible price is NT\$39.80.

According to SFAS No.36, the Company is required to separate equity and liability components, as follow:

	<u>12.31.2010</u>
Liability from issuing convertible bond	\$ 657,419
Derivative financial instruments during issuance-right to redeem (buy) and sell	(70,686)
Equity component during issuance	<u>113,267</u>
Total liability during issuance	<u>\$ 700,000</u>

4.12 Pension Plan

1. Pension Funds by Actuarial method:

(1) Reconciliation of funded status of the plan and accrued pension cost at December 31, 2010 and 2009.

	<u>12.31.2010</u>	<u>12.31.2009</u>
Benefit obligation:		
Vested benefit obligation	\$ (14,390)	(7,823)
Nonvested benefit obligation	<u>(92,567)</u>	<u>(88,866)</u>
Accumulated benefit obligation	(106,957)	(96,689)
Additional benefits based on future salaries	<u>(17,132)</u>	<u>(17,435)</u>
Projected benefit obligation	(124,089)	(114,124)
Fair value of plan assets	<u>80,225</u>	<u>75,223</u>
Funded status	(43,864)	(38,901)
Unrecognized net transition obligation	37,355	33,218
Unrecognized net loss	<u>(20,223)</u>	<u>(15,783)</u>
Accrued pension cost	<u>\$ (26,732)</u>	<u>(21,466)</u>

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

	2010	2009
Service cost	\$ 2,193	1,996
Interest cost	2,568	2,125
Actual return on plan assets	(1,697)	(1,602)
Unamortized pension	<u>1,558</u>	<u>507</u>
Net periodic pension cost	<u>\$ 4,622</u>	<u>3,026</u>

(3) Actuarial assumptions are as follows:

	2010	2009
Discount rate used in determining present values	2.25%	2.25%
Salary adjustment rate	1.50%	1.50%
Expected rate of return on plan assets	2.25%	2.25%

2. In 2010 and 2009, the Consolidated Companies' domestic subsidiaries have adopted the actuarial pension funds by contributing NT\$25,891 thousand and NT\$22,045 thousand, respectively.

3. In 2010 and 2009, the Consolidated Companies' foreign subsidiaries have, in accordance with their laws, contributed NT\$10,754 thousand and NT\$3,519 thousand, respectively, as pension.

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, 2010 and 2009 are as follows:

	2010	2009
Current income tax expense	\$ 159,960	222,395
Deferred income tax expense (benefit)	<u>11,110</u>	<u>34,094</u>
Income tax expense	<u>\$ 171,070</u>	<u>256,489</u>

The components of deferred income tax expense (benefit) for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Unrealized gain or loss on foreign exchange, net	\$ (7,433)	(19,062)
Unrealized loss on investment, net	9,540	55,530
Unrealized impairment loss, net	-	9,968
Loss for market price decline and obsolete and slow-moving inventories	3,164	12,828
Valuation Allowance- current changes in deferred income tax assets	5,601	(57,056)
Effect of change in income tax rate on deferred income tax	1,810	17,116
Others	<u>(1,572)</u>	<u>14,770</u>
	<u>\$ 11,110</u>	<u>34,094</u>

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3. According to the amended Income Tax Act on June 15, 2010, the Company would be subject to income tax rate of 17% commencing from 2010. Applicable incomes are subject to income taxes of 17% and 25% in the year 2010 and 2009, respectively. The components of deferred income tax expense (benefit) for the years ended December 31, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Estimated income tax expense calculated based on financial income before income tax at statutory tax rate of 25%	\$ 196,488	356,192
Gain on disposal of marketable securities	(2,657)	(3,667)
Change in valuation allowance for deferred income tax assets	-	(41,477)
Effect of change in income tax rate	1,810	17,917
Tax-exempt income and investment tax credits	(14,610)	(71,590)
10% surtax on undistributed earnings	4,458	15,057
Others	(14,419)	(15,943)
	<u>\$ 171,070</u>	<u>256,489</u>

4. The components of deferred income tax assets as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Deferred income tax assets – current:		
Provision for inventory obsolescence	\$ 21,592	\$ 29,127
Provision for bad debt in excess	4,746	5,485
Unrealized gain or loss on foreign exchange, net	10,798	3,384
Others	799	69
Less: valuation allowance	(553)	(598)
Net deferred income tax assets – current	<u>\$ 37,382</u>	<u>\$ 37,467</u>
Deferred income tax assets – noncurrent:		
Unrealized loss on investment, net	\$ 12,113	\$ 8,728
Loss carryforwards	8,825	34,622
Cumulative translation adjustments	5,055	-
Others	12,472	16,683
Less: valuation allowance	(32,041)	(58,141)
Net deferred income tax assets – noncurrent	<u>6,424</u>	<u>1,892</u>
Deferred income tax liabilities – noncurrent:		
Long-term investment income under equity method	(34,652)	(24,022)
Cumulated translation adjustments	-	(8,510)
	<u>(34,652)</u>	<u>(32,532)</u>
Net deferred income tax liabilities – noncurrent	<u>\$ (28,228)</u>	<u>\$ (30,640)</u>

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

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5. The tax authorities have examined income tax returns of the Company through 2008.
6. According to the Statute for Industrial Innovation, investment allowance of R&D expense can be applied to income tax for operations, with the allowance not exceeding 30% of the total operating income tax. For the year 2010, the investment allowance is NT\$8,805 thousand.
7. Imputation credit account (ICA) and creditable ratio:

	12.31.2010	12.31.2009
Unappropriated earnings before 1997	\$ -	1,848
Unappropriated earnings after 1998	1,258,972	1,371,504
	\$ 1,258,972	1,373,352
Imputation credit account (ICA) balance	\$ 171,397	159,234
	2010 (Expected)	2009 (Actual)
Actual /estimated creditable ratio for earnings distribution	18.45%	22.57%

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4.14 Stockholders' Equity

1. Common Stock and Stock Issuances

On June 16, 2009, the Company's shareholders approved a resolution to increase capital of NT\$56,129 thousand and employees' bonus of NT\$25,000 thousand, from shareholders dividends. The total common shares issued is 6,572 thousand (including employees stock bonuses 959 thousand). The record date for capital increase is August 26, 2009, and was authorized by and registered with government authorities.

On May 11, 2010, the Board approved to reduce interest expense and purchase Property, plant and equipments to increase productivity, revenue and profit to settle bank loans and to strengthen financial structure and competitiveness. A resolution has been proposed to increase capital through issuing 33,000 thousand new shares, each at NT\$32.50, record date as August 4, 2010 with NT\$3,202,175 thousand as capital issued. This resolution was authorized by and registered with government authorities.

As of December 31, 2010 and 2009, the Company's authorized common stock consisted of NT\$4,500,000 thousand, with par value of NT\$10 per share, of which NT\$3,202,175 and NT\$2,872,175, respectively, were issued as capital.

2. 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, 2010 and 2009, the components of capital surplus are as follows:

	12.31.2010	12.31.2009
From cash capital increase	\$ 1,687,890	945,386
From convertible bonds	1,463,082	1,463,082
From corporate options	113,267	-
From treasury stock	424	424
From Merger	144,225	144,225
From employees stock option	188,297	163,547
From employees' bonus	15,410	15,410
From long-term equity investment	39,748	30,958
	\$ 3,652,343	2,763,032

3. 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.

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4. 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.

5. Distribution of earnings

According to Holy Stone's articles of incorporation, if there is a surplus considering all accounts by the end of a fiscal year, the surplus shall be allocated in the following order;

- (1) Pay off income taxes as required by law.
- (2) Offset accumulated deficits from past years.
- (3) Allocate 10 percent to capital reserve, unless capital reserve has reached total paid-in capital.
- (4) Allocated a portion to special capital reserve, as required by government regulations.
- (5) The surplus remaining after deduction of items (1) to (4) should be allocated to the directors, supervisors and employees as follow:
 - A. Remuneration for directors and supervisors should not exceed 3%.
 - B. Employee bonuses should be no less than 7%.

If employee bonuses are distributed as stocks, these employees must be qualified according to the requirements composed by the board or his/her authorized personnel.
- (6) The surplus remaining after deductions of items (1) to (5) could be distributed to the shareholders after the resolution is approved in the shareholders' meeting.

For the years ended December 31, 2010 and 2009, the bonuses to employees and remuneration to directors and supervisors were accrued based on a respective 16% and 3% of net income after setting aside 10% net income as legal reserves. In 2010 and 2009, bonuses to employees were NT\$116,964 thousand and NT\$119,005 thousand, respectively, and remunerations to directors and supervisors were NT\$21,931 thousand and NT\$22,313 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, adjusted for cash and/or stock dividends if any. If the board's approval differs from the amount ratified at the meeting, the difference will be treated as changes in accounting estimation and will be adjusted in the income of 2011 and 2010, respectively.

The appropriation of 2009 and 2008 earnings was approved at the shareholders' meetings on June 14, 2010, and June 16, 2009, respectively as follows:

	2009	2008
Employee bonuses-stock	\$ -	25,000
Employee bonuses-cash	119,005	25,500
Directors' and supervisors' remuneration	22,313	15,100
	\$ 141,318	65,600

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The 2008 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. The 2009 appropriation of earnings did not differ from the resolutions approved by the board.

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.

6. Dividend Policy

The Company formulated 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 earnings distribution plan and proposes it to the annual general shareholders' meeting. The appropriation of the Company's net income may be distributed by ways of cash dividend and/or stock dividends 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.

7. Employee Stock options plans (ESO Plans)

In order to attract and retain well-performing employees and encourage each employee to create interests for the Company and all stockholders, the employee stock options were issued through 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 are 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, 2010 (NTD)	Issuing Way
2006 1 st ESO Plan	07.10.2006	1	5,000,000	08.21.2006	1,500,000	\$ 49.30	33.70	In turn
"		-	-	06.15.2007	3,500,000	58.50	41.00	"
2007 1 st ESO Plan	11.11.2007	1	10,000,000	12.03.2007	10,000,000	50.00	38.00	One 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 options two years after they received it 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 it and it would become 75% three years after, and 100% four years after.

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As of December 31, 2010, details of vested options of ESO Plans are as follows:

<u>ESO Plans</u>	<u>Units Granted Issued</u>	<u>Units Actually Issued</u>	<u>Units Converted</u>	<u>Units Expired</u>	<u>Units Before Converted</u>	<u>Duration</u>
2006 1 st ESO Plan	5,000,000	1,500,000	-	-	1,500,000	08.21.2006~08.20.2012
"	-	3,500,000	-	-	3,500,000	06.15.2007~06.14.2013
Merger with INFORTECH CO., LTD.	1,049	1,049	-	1,049	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>\$ 15,001,049</u>	<u>15,001,049</u>	<u>-</u>	<u>1,049</u>	<u>15,000,000</u>	

According to standards of No. 70, No. 71 and No.72, issued by the Accounting Research and Development Foundation on March 17, 2003, all enterprises should follow 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 be retroactively adjust to apply to SFAS No.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, totaling 15,000,000 shares in common stock, is disclosed as follows:

- (1) No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2010 and 2009 since market value of stock at measurement date was equal to exercise price.
- (2) Had the Company used the fair value 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 granted date using the Black-Scholes option pricing model. Compensation costs amounted to NT\$0 and NT\$94,853 thousand in 2010 and 2009, respectively. Assumptions used to estimate the fair value of the aforementioned employee stock options are 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

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

Stock Option	2010		2009	
	Unit (in thousands)	Weighted-average exercise price (NT\$)	Unit (in thousands)	Weighted-average exercise price (NT\$)
Outstanding balance at the beginning of period	15,000	\$ 41.78	16,049	\$ 43.11
Option granted	-	-	-	-
Options exercised	-	-	-	-
Option expired	-	-	(1,049)	-
Outstanding balance at the end	<u>15,000</u>	38.27	<u>15,000</u>	41.78
Exercisable number at the end	<u>7,125</u>	38.20	<u>4,375</u>	41.66
Exercisable number at the end	-	-	-	-

C. As of December 31, 2010, details of outstanding options of the ESO plans are as follows:

Exercise price (NT\$)	Outstanding stock options as of Dec. 31, 2010			Vested options	
	Units	Remaining vesting period	Exercise price (NT\$)	Units as of 12.31.2010	Exercise price (NT\$)
\$ 33.70	1,500,000	1.64	\$ 33.70	1,500,000	\$ 33.70
41.00	3,500,000	2.45	41.00	2,625,000	41.00
38.00	10,000,000	6.93	38.00	3,000,000	38.00

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:

		2010	2009
Net income	Net income as reported	\$ 830,118	921,037
	Pro forma net income	830,118	849,897
Basic earnings per share (NT Dollars)	Basic EPS as reported	2.77	2.96
	Pro forma basic EPS	2.77	2.71

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4.15 Earnings per Share

The Consolidated Companies' basic earnings per share and diluted earnings per share of 2010 and 2009 were computed as follows:

	2010		2009	
	Before income tax	After income tax	Before income tax	After income tax
Basic EPS				
Net income	\$ 970,691	832,234	1,035,053	849,611
Weighted average number of shares outstanding (in thousand)	300,779	300,779	286,781	286,781
Basic EPS (NT Dollars)	\$ 3.23	2.77	3.61	2.96
Diluted EPS				
Net income	\$ 970,691	832,234	1,035,053	849,611
Effect of dilutive potential common stock – convertible bonds	4,445	3,689	-	-
Diluted EPS-net income	\$ 975,136	835,923	1,035,053	849,611
Weighted average number of shares outstanding (in thousands)	300,779	300,779	286,781	286,781
Expensing employee bonus	4,513	4,513	3,412	3,412
Employee stock options	731	731	-	-
Domestic convertible bond	9,252	9,252	1,042	1,042
Diluted EPS- weighted average number of shares outstanding (in thousand)	315,275	315,275	291,235	291,235
Diluted EPS (NT Dollars)	\$ 3.09	2.65	3.55	2.92

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4.16 Additional Disclosure on Financial Instruments

1. Fair value information

As of December 31, 2010 and 2009, the fair value of the Consolidated Companies' financial assets and liabilities is as follows:

	12.31.2010		12.31.2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 2,295,905	2,295,905	2,481,213	2,481,213
Financial assets at fair value through profit or loss-current:	481,837	481,837	702,445	702,445
Notes and accounts receivable	3,722,755	3,722,755	3,199,528	3,199,528
Available-for-sale financial assets - noncurrent	1,171,604	1,171,604	1,065,743	1,065,743
Financial assets carried at cost - noncurrent	550,060	Note	508,894	Note
Financial liabilities:				
Short-term loans	1,254,104	1,254,104	1,148,575	1,148,575
Financial assets at fair value through profit or loss-current:	-	-	34	34
Notes and accounts payable (including related parties)	1,621,627	1,621,627	1,243,988	1,243,988
Bonds payable (current portion)	661,864	661,864	-	-
Long-term borrowing (including current portion)	515,833	515,833	1,142,250	1,142,250

Note: Stocks of unlisted companies and preferred stocks, with preferred stocks of annual dividend of 3.5%. The fair value 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 their short-term nature.
- (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. If the market price is available, the fair value would be based on the market stated price.
- (4) The fair value of long-term borrowings approximates their carrying amount due to floating interest rate.

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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 are as follows:

	12.31.2010		12.31.2009	
	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	\$ -	2,295,905	-	2,481,213
Financial assets at fair value through profit or loss-current:	420,328	61,509	695,057	7,388
Notes and accounts receivable	-	3,722,755	-	3,199,528
Available-for-sale financial assets - noncurrent	1,171,604	-	1,065,743	-
Financial liabilities:				
Short-term loans	-	1,254,104	-	1,148,575
Financial assets at fair value through profit or loss-current:	-	-	-	34
Notes and accounts payable (including related parties)	-	1,621,627	-	1,243,988
Bonds payable (current portion)	-	661,864	-	-
Long-term borrowing (including current portion)	-	515,833	-	1,142,250

4. Information about financial risks

(1) Market risk

The Consolidated Companies hold equity securities which are classified as available-for-sale financial assets and financial assets held for trading. 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.

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(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\$17,699 thousand different.

5. Related-party Transactions

5.1 Name and Relationship

<u>Name of related party</u>	<u>Relationship with the Consolidated Companies</u>
eGalax_eMPIA Technology Inc. ("EETI")	The Company holds directorship
All directors, supervisors, general managers and vice general managers	Main management team of the Consolidated Companies

5.2 Significant Transactions with Related Parties

Significant transactions with related parties in 2010 and 2009, and the transaction remainders as of December 31, 2010 and 2009 are as follows:

1. Purchases

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of net purchases</u>	<u>Amount</u>	<u>% of net purchases</u>
EETI	<u>\$ 60,596</u>	<u>0.49</u>	<u>114,933</u>	<u>1.18</u>

Material price of the related parties is incomparable to those of suppliers because the Consolidated Companies have not purchased similar products as those from the related parties. The payment terms with general suppliers 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-end payables caused by purchases and sales due to aforementioned and last fiscal year are as follows:

	<u>12.31.2010</u>		<u>12.31.2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Notes and accounts payable:				
EETI	<u>\$ 13,744</u>	<u>0.85</u>	<u>15,548</u>	<u>1.25</u>

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5.3 Main Managers' Remuneration

Details on remuneration paid to directors, supervisors, president, and vice presidents in 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Salaries	\$ 46,010	52,264
Cash awards and special allowances	992	2,010
Expense of execution	1,920	920
Employees' bonus	30,800	37,000

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, 2010 and 2009, details on carrying amount of pledged assets as collaterals against bank loans are as follows:

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>Carrying amount</u>	
		<u>12.31.2010</u>	<u>12.31.2009</u>
Time deposits (recognized as the other financial assets-current)	Line of credit and secured by customs service	\$ 91,123	110,661
Land	Short-term loans	232,413	75,891
Buildings	"	<u>75,735</u>	<u>6,734</u>
Total		<u>\$ 399,271</u>	<u>193,286</u>

7. Commitments and Contingencies

As of December 31, 2010 and 2009, the Consolidated Companies' outstanding letters of credit, which facilitate the Consolidated Companies' purchase of materials, amounted to NT\$443,685 thousand and NT\$112,719 thousand, respectively.

8. Significant Disaster Loss: None.

9. Significant Subsequent Events: None.

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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		358,588	598,996	957,584	226,268	610,952	837,220
Labor and health		39,310	38,170	77,480	23,664	23,249	46,913
Pension expense		19,689	21,578	41,267	12,502	16,088	28,590
Other (Note)		24,836	12,366	37,202	8,719	9,776	18,495
Depreciation		205,105	34,807	239,912	191,647	35,910	227,557
Amortization		55	6,231	6,286	254	7,654	7,908

Note: Including meal expenses and training expenses.

10.2 The Consolidated Companies' significant foreign financial assets and liabilities are as follows:

	12.31.2010		12.31.2009	
	<u>Foreign Currency</u>	<u>Rate</u>	<u>Foreign Currency</u>	<u>Rate</u>
<u>Financial Assets</u>				
<u>Currency-related items</u>				
USD	\$ 174,749	29.13	134,346	31.99
EUR	433	38.92	17	46.10
HKD	10,567	3.748	8,033	4.126
JPY	187,429	0.3582	94,317	0.3465
GBP	29	45.19	-	-
CNY	112	4.4405	145	4.685
KRW	358	0.02618	358	0.0275
CHF	201	31.07	340	31.03
<u>Noncurrency-related items</u>				
USD	4,405	29.13	710	31.99
HKD	4,868	3.748	647	4.126
<u>Financial Liabilities</u>				
<u>Noncurrency-related items</u>				
USD	58,396	29.13	65,323	31.99
EUR	15	38.92	-	-
JPY	258,242	0.3582	357,713	0.3465
GBP	127	45.19	-	-
HKD	-	-	3	4.126

10.3 Reclassification

Figures of 2009 consolidated financial statements were reclassified properly in order to match those of 2010 consolidated financial statements.

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11. Additional Disclosures

11.1 Significant Transaction Information

In 2010, the additional disclosures required by the Regulations Governing the Preparation of Financial Report are 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)	Remarks
											Item	Value			
0	The Company	Holy Stone Holding Co., Ltd.	Other receivables	116,479	-	1.80%	Necessity of short-term financing	-	Operation turnover	-	-	-	1499,887	3,749,718	Note 2

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 while filing consolidated financial statements.

2. Endorsement/guarantee provided:

No.	Endorser/ Guarantor Company	Endorsee/Guarantee		Quotas of Endorsement/ Guarantee for Single Enterprise	Endorsement/ Guarantee Balance, Highest	Endorsement/ Guarantee Balance, Ended	Endorsement/ Guarantee Warranted by Property	Accumulated Endorsement/ Guarantee to Financial Statement's Net Value Rate	Highest Quotas of Endorsement/ Guarantee	Remarks
		Company	Nature of Relationships							
0	The Company	Martek Co., Ltd.	Subsidiary	1,874,859	20,000	20,000	-	0.21%	4,687,148	Note 2
0	The Company	Holy Stone Holding Co., Ltd.	Subsidiary	1,874,859	32,000	32,000	32,000-	0.34%	4,687,148	Note 2
0	The Company	Holy Stone Polytech Co., Ltd.	Subsidiary	1,874,859	187,600	179,100	-	1.91%	4,687,148	Note 2

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 while filing consolidated financial statements.

3. Marketable securities held:

Unit: Thousand shares

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Highest ownership within period		December 31, 2010				Note
				Shares (unit)	Percentage of Ownership	Shares (unit)	Carrying Value	Percentage of Ownership	Market Value (Net Asset Value)	
The Company	AMVIG	-	Financial assets at fair value through profit or loss - current - foreign stock	440		440	10,768	-	10,768	-
The Company	MAOYE INTL	-	"	200		200	2,631	-	2,631	-
The Company	CHANGFENG AXLE	-	"	250		250	4,198	-	4,198	-
The Company	MIE HOLDINGS CO.	-	"	500		266	1,695	-	1,695	-
The Company	TMTEC Corporate Bond B	-	Financial assets at fair value through profit or loss - current - bond	700		700	71,766	-	71,766	-
The Company	Everlight Corporate Bond D	-	"	400		400	41,008	-	41,008	-

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Highest ownership within period		December 31, 2010				Note
				Shares (unit)	Percentage of Ownership	Shares (unit)	Carrying Value	Percentage of Ownership	Market Value (Net Asset Value)	
The Company	King Slide Corporate Bond A	-	"	200		200	20,000	-	20,000	-
The Company	Uni-president Securities Corporate Bond A	-	"	300		300	30,000	-	30,000	-
The Company	D-Link Corporate Bond C	-	"	200		200	20,000	-	20,000	-
The Company	Catcher Corporate Bond A	-	"	400	-	400	40,401	-	40,401	-
The Company	Cathay MAN AHL Diversified Future Fund	-	Financial assets at fair value through profit or loss - current - open-ended fund	1,000	-	1,000	10,460	-	10,460	-
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of the Company	Long-term equity investment	11,500	100.00	11,500	160,997	100.00	160,997	Note-
The Company	Holy Stone Holdings Co., Ltd. Stock	Subsidiary of the Company	"	26,976	100.00	26,976	903,904	100.00	910,838	Note -
The Company	UHOLY Investments Co., Ltd. Stock	Subsidiary of the Company	"	22,500	57.69	22,500	631,482	57.69	630,105	Note
The Company	Taiwan Mahk Opt Co., Ltd. Stock	Subsidiary of the Company	"	8,500	100.00	8,500	156,402	100.00	156,402	Note -
The Company	Rong Jhan Investments Co., Ltd. Stock	Subsidiary of the Company	"	40,000	100.00	40,000	527,655	100.00	527,655	Note -
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets - noncurrent	861	-	861	205,359	-	205,359	-
The Company	eGalax_eMPIA Technology Inc. Stock	-	"	1,337	-	1,237	120,636	-	120,636	-
The Company	INPAQ Technology Co., Ltd. Stock	-	"	1,117	-	1,117	34,407	-	34,407	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	Financial assets carried at cost - noncurrent	7,500	-	7,500	300,000	-	-	-

Note: Have been eliminated while filing consolidated financial statements.

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/ Thousands of NT\$

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	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	-	-	-	-	107,699	1,490,000	107,699	1,490,793	1,490,000	793	-	-	-
The Company	Mega Diamond Bond Fund	"	-	-	-	-	91,476	1,093,000	91,476	1,093,658	1,093,000	658	-	-	-
The Company	Cathay Bond Fund	"	-	-	-	-	106,958	1,280,000	106,958	1,280,541	1,280,000	541	-	-	-
The Company	Fuh Hwa Benefit Fund	"	-	-	-	-	12,791	165,000	12,791	165,076	165,000	76	-	-	-
The Company	KGI at thirty	"	-	-	-	-	-	200,000	-	200,123	200,000	123	-	-	-

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5. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital:

Acquiring Company	Name of Property	Transaction Date	Transaction Amount	Payment Status	Trading Entity	Nature of Relationship	If trading entity is a related company, Information on past acquisitions				Reference for decision on price	Purpose of Acquisition and Status of Usage	Other Terms
							Owner	Nature of Relationship	Transaction Date	Amount			
The Company	No. 15, Section 2, LiGongYi Rd, Wuji Township Yilan County, Taiwan 268	November 29, 2010	137,351	Settled on November 29, 2010	Industrial Development Bureau, Ministry of Economic Affairs-Lung Te (& Letzer) Ind'l Park Service Center	-	-	-	-	-	-	Normal	-

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: Thousands of NT\$

Company Name	Related Party	Nature of Relationship	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	
The Company	Holy Stone Enterprise (H.K)	Subsidiary of H.S	Sales	1,236,766	9.76%	Next month-end 120 days	-	-	540,892	16.20%	Note
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	Sales	1,017,209	8.02%	Next month-end 150 days	-	-	393,528	11.78%	Note -
The Company	INFORTECH (CHINA) Co., Ltd.	Subsidiary of H.S.I	Sales	406,307	3.20%	Month-end 120 days	-	-	110,471	3.31%	Note -
The Company	Holy Stone Polytech Co., Ltd.	Subsidiary of Holy Stone Holdings	Purchases	253,565	2.27%	Month-end 45 days	-	-	(30,194)	2.12%	Note -

Note: Have been eliminated while filing consolidated financial statements.

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

Unit: Thousands of NT\$

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	540,892	3.26	-	-	134,013	-	Note
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	393,528	2.55	-	-	73,169	-	Note -
The Company	INFORTECH (CHINA) Co., Ltd.	Subsidiary of H.S.I	110,471	4.45	-	-	-	-	Note -

Note: Have been eliminated while filing consolidated financial statements.

9. Derivatives transaction:

Please refer to "Financial Statements Notes 4.2" to get the Company's derivatives transaction information in 2010.

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

Related information on investee companies of 2009 is 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, 2010			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Relationship with the Company	Remark
				Dec. 31, 2010	Dec. 31, 2009	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%	160,997	15,973	15,973	Subsidiary of the Company	Note 2
The Company	Holy Stone Holdings Co., Ltd.	SAMORA	Investment activities	841,951	841,951	26,976	100.00%	903,904	74,688	67,754	Subsidiary of the Company	Note 2
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	631,482	(4,279)	(2,468)	Subsidiary of the Company	Note 2
The Company	Taiwan Mahk Opt Co., Ltd.	Yilan County	Miniature camera and components manufacturing and selling. Optical machinery and precision machinery manufacturing and trading	-	75,350	-	-	-	-	(2,351)	Subsidiary of the Company; Dissolved in December 2010	Note 2
The Company	Martek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and machinery and equipment selling	20,000	20,000	8,500	100.00%	156,402	61,263	61,263	Subsidiary of the Company	Note 2
The Company	Rong Jhan Investments Co., Ltd.	Taipei City	Investment activities	340,000	340,000	40,000	100.00%	527,655	53,682	53,682	Subsidiary of the Company	Note 2
Holy Stone Holdings	Holy Stone Investments Co., Ltd.	Hong Kong	Investment activities	USD 6,900,000	USD 6,900,000	6,900	100.00%	USD 7,763,240	USD (216,573)	USD (216,573)	Subsidiary of Holy Stone Holdings Co., Ltd.	Note 2
Holy Stone Holdings	Holy PAQ CORPORATION	CAYMAN	Investment activities	USD 1,200,000	USD 1,200,000	1,200	100.00%	USD 225,418	USD 21,693	USD 21,693	Subsidiary of Holy Stone Holdings Co., Ltd.	Note 2
Holy Stone Holdings	Green Glory Holdings Ltd.	SOMOA	Investment activities	USD 2,140,624	USD 2,140,624	2,210	100.00%	USD 1,455,187	USD 356,540	USD 356,540	Subsidiary of Holy Stone Investments Co., Ltd.	Note 2
Holy Stone Holdings	Mayatek Co., Ltd.	Belize	Electric appliances, precision instrument, computers and machinery and equipment selling	USD 13,976,000	USD 13,976,000	2,500	100.00%	USD 16,621,711	Note 1	Note 1	Subsidiary of Holy Stone Holdings Co., Ltd.	Note 2
	Holy Stone Polytech Co., Ltd.			JPY 483,000,000	-	4,830	98.57%	USD 5,875,579	JPY (5,387,000)	USD (60,533)	Subsidiary of Holy Stone Holdings Co., Ltd.	Note 2
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 5,255,050	CNY (2,177,636)	USD (353,085)	Subsidiary of Holy Stone Investments Co., Ltd.	Note 2
Holy Stone Investments Co., Ltd.	INFORTECH (CHINA) CO., LTD.	Shanghai, CHINA	Electronic components selling	USD 2,100,000	USD 2,100,000	2,100	100.00%	USD 2,473,048	CNY 932,960	USD 138,265	Subsidiary of Holy Stone Investments Co., Ltd.	Note 2
INFORTECH (CHINA) CO., LTD.	Zierra (Wuhan) Electronic Tech Co, Ltd.	CHINA	Electronic components selling	CNY 1,500,000	CNY 1,500,000	1,500	100.00%	CNY 1,438,619	CNY (29,018)	CNY (29,018)	Subsidiary of INFORTECH (CHINA)	Note 2
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 198,668	CNY 193,812	USD 28,723	Subsidiary of Holy PAQ CORPORATION	Note 2
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 819,083	CNY 26,389	USD 3,911	Subsidiary of Green Glory Holdings	Note 2
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 357,550	USD 257,335	USD 257,335	Subsidiary of Green Glory Holdings	Note 2
Green Glory Holdings	HOLYSTONE (EUROPE) LTD.	England	Electronic retailing and trading	USD 686,873	USD 686,873	350	100.00%	USD 258,778	GBP 62,160	USD 96,111	Subsidiary of Green Glory Holdings	Note 2
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co., Ltd.	Taipei City	Western medicine wholesaling and medical instruments wholesaling	64,505	64,505	6,500	39.16%	27,920	(33,459)	(15,371)	UHOLY's investee company recognized under equity method	Note 2
Holy Stone Healthcare Co., Ltd.	Holygene Corporation	British Virgin Islands	Investment activities	USD 1,266,000	USD 1,266,000	1,266	29.79%	(11,513)	USD (2,676,114)	(25,189)	Holy Stone Healthcare's investee company recognized under equity method	-
Holy Stone Healthcare Co., Ltd.	MDT INT'L SA	Switzerland	Medical instruments trading	CHF 1,275,000	CHF 1,275,000	1,275	50.00%	32,672	CHF (164,889)	(2,398)	Subsidiary of Holy Stone Healthcare Co., Ltd.	Note 2
Holy Stone Healthcare Co., Ltd.	GLOBAL SEARCH HOLDINGS LTD.	SOMOA	Investment activities	USD 150,000	USD 150,000	150	100.00%	4,298	USD (839)	(26)	Subsidiary of Holy Stone Healthcare Co., Ltd.	Note 2
The Company	OHGA Electronics Co., Ltd.	Taipei County	Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70%	397,816	71,283	49,898	Subsidiary of Rong Jhan Investments Co., Ltd.	Note 2

Note 1: The subsidiaries have recognized relevant income.

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

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2. Financing to related parties: None.
3. Endorsement/guarantee provided: None;
4. Marketable securities held:

Unit: Thousands of NT\$ / Thousand shares

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010				Remarks
				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		USD 324,570	-	USD 324,570	-
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	6,	USD 7,763,240	100.00	USD 7,763,240	Note
Holy Stone Holdings Co., Ltd.	Holypaq Corporation Stocks	Subsidiary of H.S.H	Long-term equity investment	1,	USD 225,418	100.00	USD 184,643	Note
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,	USD 1,455,187	100.00	USD 1,455,187	Note
Holy Stone Holdings Co., Ltd.	Mayatek Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,	USD 16,621,711	100.00	USD 4,462,874	Note
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	48,	USD 5,875,579	98.57	JPY 477,683,048	Note
Holy Stone Investments Co., Ltd.	Holy Stone international trading (Shanghai) Co., Ltd. Stocks	Subsidiary of H.S.I	Long-term equity investment	4,	USD 5,255,050	100.00	CNY 34,481,955	Note
Holy Stone Investments Co., Ltd.	INFORTECH (CHINA) CO., LTD. Stocks	Subsidiary of H.S.I	Long-term equity investment	2,	USD 2,473,048	100.00	CNY 16,227,349	Note
INFORTECH (CHINA) CO., LTD	Zierra (Wuhan) Electronic Tech Co, Ltd. Stocks	Subsidiary of INFORTECH	Long-term equity investment	1,	CNY 1,438,619	100.00	CNY 1,438,619	Note
Holypaq Corporation	HolyPAQ (Dongguan) Corporation Stocks	Subsidiary of Holypaq Corporation	Long-term equity investment	1,	USD 198,668	100.00	CNY 1,303,597	Note
Green Glory Holdings Ltd.	INFORTECH International Trading (Shanghai) Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	1,	USD 819,083	100.00	CNY 5,374,561	Note
Green Glory Holdings Ltd.	Milestone Global Technology Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment		USD 357,550	100.00	USD 357,550	Note
Green Glory Holdings Ltd.	Holystone (Europe) Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment		USD 258,778	100.00	GBP 166,813	Note
UHOLY Investments Co. Ltd.	Fuh Hwa Fund	-	Financial assets at fair value through profit or loss	3,	53,318	-	53,318	-
UHOLY Investments Co. Ltd.	NAK Stocks	-	Financial assets at fair value through profit or loss		2,385	-	2,385	-
UHOLY Investments Co. Ltd.	Stock of Holy Stone Healthcare Co. Ltd. Stocks	Subsidiary of UHOLY Investments Co. Ltd.	Long-term equity investment	6,	27,923	39.16	27,923	Note
UHOLY Investments Co. Ltd.	EETI Stocks	-	Available-for-sale financial assets - noncurrent	5,	528,907	-	528,907	-
UHOLY Investments Co. Ltd.	INPAQ Technology Co., Ltd. Stocks	-	Available-for-sale financial assets - noncurrent	8,	260,073	-	260,073	-
UHOLY Investments Co. Ltd.	Innovation Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	8,	89,000	-	89,000	-
UHOLY Investments Co. Ltd.	C2 MICROSYSTEMS INC. Preferred stocks	-	Financial assets carried at cost - noncurrent	1,	29,809	-	29,809	-
UHOLY Investments Co. Ltd.	Zelltek Technology Corp. Stocks	-	Financial assets carried at cost - noncurrent		19,757	-	19,757	-
UHOLY Investments Co. Ltd.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent		2,994	-	2,994	-
UHOLY Investments Co. Ltd.	Innostone Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	5,	59,000	-	59,000	-
Holy Stone Healthcare Co.	Holygene Corporation Stocks	-	Long-term equity investment	1,	(11,513)	29.79	USD (395,220)	-
Holy Stone Healthcare Co.	MDT INT'L SA Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	1,	32,672	50.00	CHF 1,051,567	Note
Holy Stone Healthcare Co.	Global Search Holdings Ltd. Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment		4,298	100.00	USD 147,548	Note

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010				Remarks
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
Holy Stone Healthcare Co.	Fuh Hwa Bond Fund	-	Financial assets at fair value through profit or loss – current	2,	35,058	-	35,058	-
Rong Jhan Investments Co.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost – noncurrent		4,500	-	4,500	-
Rong Jhan Investments Co.	Grand Fortune Securities Co., Ltd Stocks	-	Financial assets carried at cost – noncurrent	5,	45,000	-	45,000	-
Rong Jhan Investments Co.	INPAQ Technology Co., Ltd. Stocks	-	Available-for-sale financial assets – noncurrent		21,560	-	21,560	-
Rong Jhan Investments Co.	OHGA Electronics Co., Ltd. Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	15,	397,816	70.00	230,711	Note
Rong Jhan Investments Co.	Fuh Hwa Bond Fund	-	Financial assets at fair value through profit or loss – current		2,567	-	2,567	-
Rong Jhan Investments Co.	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss – current	1,	18,071	-	18,071	-
Rong Jhan Investments Co.	Cathay MAN AHL Diversified Future Fund	-	Financial assets at fair value through profit or loss – current		5,190	-	5,190	-
Rong Jhan Investments Co.	Taiwan Hon Chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss – current		6,783	-	6,783	-
Rong Jhan Investments Co., Ltd.	Makalot Industrial Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss – current		3,768	-	3,768	-
OHGA Electronics Co., Ltd.	Catcher Corporate Bond A	-	Financial assets at fair value through profit or loss – current		10,100	-	10,100	-
OHGA Electronics Co., Ltd.	TMTEC Corporate Bond B	-	Financial assets at fair value through profit or loss – current		20,706	-	20,706	-

Note: Have been eliminated while filing consolidated financial statements.

5. 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 of shares/ Thousand units/ USD

Holding Company	Marketable Securities Type and Name	Financial Statement Account	Trade Purpose	Relationship with the Company	Beginning of Period		Acquisition		Disposal				End of Period		Remarks
					Shares (Units)	Value	Shares (Units)	Value	Shares (Units)	Price	Carrying Cost	Gain or Loss on Disposal	Shares (Units)	Value	
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd. Stocks	Long-term equity investment	Cash Capital Increase	Subsidiary of H.S.H.	-	-	4,830	USD 5,365,352	-	-	-	-	4,830	USD 5,365,352	Note

Note: Have been eliminated while filing consolidated financial statements.

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.

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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	1,236,766	100.00 %	Next month-end 120 days	-	-	(540,892)	100.00%	Note
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Subsidiary of H.S.I	Purchases	1,017,209	90.09 %	Next month-end 150 days	-	-	(393,528)	99.96%	Note
INFORTECH (CHINA) CO., LTD.	The Company	Subsidiary of H.S.I	Purchases	406,307	97.29 %	Month-end 120 days			(110,471)	89.49%	Note
Holy Stone Polytech Co., Ltd.	The Company	Subsidiary of H.S.H	Sales	253,565	42.99%	Month-end 45 days			30,194	18.79%	Note

Note: Have been eliminated while filing consolidated financial statements.

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 2010:

No.	Company Name	Derivative	Nominal Principal (thousand)	Term	Fair Value
1	Martek Co.	Forward Foreign Exchange Contract	USD 280	12.06.2010-01.07.2011	332
1	Martek Co.	Forward Foreign Exchange Contract	USD 800	11.23.2010-01.07.2011	719
1	Martek Co.	Forward Foreign Exchange Contract	USD 1,000	11.03.2010-01.07.2011	907
1	Martek Co.	Forward Foreign Exchange Contract	USD 1,000	11.18.2010-02.11.2011	900
1	Martek Co.	Forward Foreign Exchange Contract	USD 1,000	12.20.2010-03.07.2011	395
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	10.12.2010-01.11.2011	712
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	10.12.2010-02.11.2011	712
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 300	12.29.2010-01.11.2011	(31)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 700	12.29.2010-03.11.2011	(82)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 400	12.31.2010-02.11.2011	(137)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 600	12.31.2010-04.11.2011	(211)

Investee companies recognized financial assets at fair value through profit or loss – current of \$3,511 thousand in 2010.

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, 2009	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2010	Ownership Held by The Company (Direct and Indirect)	Current Recognized Investment Gain (Loss) (Note 2)	Ending Balance of Investment	The Investment Gain (Loss) Remitted as of Dec. 31, 2010
					Remitted	Collected					
Holy Stone international trading (Shanghai) Co., Ltd.	Capacitors selling	USD 4,010,000		USD 3,610,000 (Note 1)	-	-	USD 3,610,000 (Note 1)	100 %	USD (353,085)	USD 5,255,050	-
HolyPAQ (Dongguan) Corporation	Capacitors manufacturing and selling	USD 1,000,000	The Company set up a subsidiary in a third place to invest in Mainland China.	USD 1,000,000	-	-	USD 1,000,000	100 %	USD 28,723	USD 198,668	-
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 3,911	USD 819,083	-
INFORTECH (CHINA) CO., LTD.	Electronic components selling	USD 2,100,000		USD 2,100,000	-	-	USD 2,100,000	100 %	USD 138,265	USD 2,473,048	-

Note 1: Excluding USD400,000 of capitalization of profits.

Note 2: Financial statement account audited by parent company's accountants.

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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) 224,592	(USD 8,110,000) 236,244	5,624,577

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:

2010:

No. (note 1)	Name	counterparty	Relation-ship (Note 2)	Transaction status			% of consolidated net sales or consolidated total assets
				Subject	Amount	Condition	
0	the Company	Holy Stone Hong Kong	1	Sales	1,236,766	Next month-end 120 days	8.31%
0	the Company	Holy Stone Hong Kong	1	Accounts receivable	540,892	Next month-end 120 days	3.67%
0	the Company	Holy Stone Shanghai	1	Sales	1,017,209	Next month-end 150 days	6.84%
0	the Company	Holy Stone Shanghai	1	Accounts receivable	393,528	Next month-end 150 days	2.67%
0	the Company	INFORTECH	1	Sales	406,307	Month-end 120 days	2.73%
0	the Company	INFORTECH	1	Accounts receivable	110,471	Month-end 120 days	0.75%
1	HPC	The Company	2	Sales	253,565	Month-end 45 days	1.70%
1	HPC	The Company	2	Accounts receivable	30,194	Month-end 45 days	0.20%

2009:

No. (note 1)	Name	counterparty	Relation-ship (Note 2)	Transaction status			% of consolidated net sales or consolidated total assets
				Subject	Amount	Condition	
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%

Note 1: Filing method:

1. No.0 represents parent company.
2. Subsidiaries are numbered according to company's sequence 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.

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 is accounted in Eliminations column of the above table:

1. For the years ended December 31, 2010 and 2009, segment profit from the parent and consolidated entities was NT\$10,855 thousand and NT\$4,459 thousand, respectively, mainly for eliminating investment income (loss).
2. For the years ended 2010 and 2009, segment identifiable assets were NT\$1,026,244 thousand and NT\$847,799 thousand, respectively, mainly for eliminating accounts receivable (payable) from related parties.

12.3 Export Sales

Net export sales of the Company were NT\$8,961,591 thousand and NT\$9,897,443 thousand in 2010 and 2009, and the details are as follows:

<u>Area</u>	<u>2010</u>	<u>2009</u>
Europe	\$ 105,874	67,915
Americas	619,836	625,787
Asia	8,233,726	9,202,592
Others	<u>2,155</u>	<u>1,149</u>
Total	\$ <u>8,961,591</u>	<u>9,897,443</u>

12.4 Major Customers

For the year ended December 31, 2010, sales to customers representing more than 10% of revenue are as follows:

	<u>2010</u>	
	<u>Net revenue</u>	<u>% of net revenue</u>
Customer C	\$ <u>1,705,904</u>	<u>11.47</u>

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

Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang