



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

TWSE: 3026

# Annual Report 2011

Printed on May 14, 2012

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

Holy Stone's Website: <http://www.holystone.com.tw/>

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Tel: 886-3-499-5288

### **3. Institution Handling Stock Transfer Service**

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### **4. The Certified Public Accountants Auditing Financial Statements during recent years**

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### **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,

Looking back at 2011, the global economy was impacted by several factors. The two catastrophes, 311 Japanese Earthquake and Thailand flood that lasted for six months, caused a serious imbalance in the industry's supply chain; operational costs skyrocketed from China's labor issues; moreover, economy recovery was slow in the U.S., pressure from inflation in developing countries, and European debt continued to worsen. Under these unfavorable events, global consumer demand dropped. As part of the supply chain, Holy Stone Group could not avoid being affected.

## Operating Results

Holy Stone's consolidated revenue for 2011 totaled NT\$15.6 billion, a 5.1% increase from 2010. Whereas gross profit was NT\$1.94 billion (gross margin of 12.4%) and operating income was NT\$726 million (operating margin of 4.6%), a decrease of 23.4% from 2010. Net income attributable to the parent company resulted in NT\$762 million (profit margin of 4.9%), a decrease of 8.5% from last year. Earnings per share decreased 14.1% to NT\$2.38

## Business Plan for 2012

Affected by unexpected events mentioned earlier, Holy Stone had made adjustments to a few development plans, but we are still thriving towards our target. In addition to the continuous development of niche MLCC products and the establishment of the Materials Development Division in the aim of increasing the proportion of self-made materials, Holy Stone is also expanding its product diversification and production scale to capture the most opportunities from transfer orders. The reconstruction at our Yilan plant that produces tantalum capacitors will be completed this year, to significantly reduce production costs. Moreover, in response to the LED lighting industrial development, Holy Stone has invested more in R&D for the design and production process of ceramic substrates as well as developing other heat dissipating materials.

For our distribution business, our customers have approved a number of integrated solutions including applications in the automotive system, industrial control system, and wireless communication system. The number of product lines increased, but because the corresponding customers and markets are still in development, substantial contribution to the Company is anticipated in 2013.

## Corporate Development

Holy Stone has operating branches spread out in different continents while expanding sales markets and product diversification. Holy Stone's goal and future objectives will be to continuously build sustainability through the implementation of environmentally friendly operations. 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 least, I hereby sincerely thank our fellow colleagues, 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.

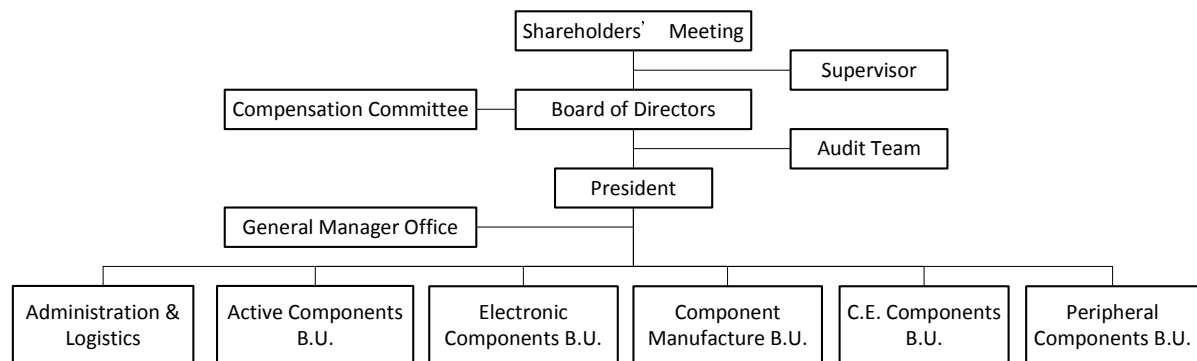
**2.2. Milestones:**

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 production of tantalum capacitors.

## 3. Corporate Governance

### 3.1. An Organized System

#### 3.1.1. Organization Structure:



#### 3.1.2. Major Corporate Functions:

##### 3.1.2.1. Audit Team:

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

##### 3.1.2.2. President Secretariat Office:

- Corporate operation development, consultation, and management

##### 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

##### 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

##### 3.1.2.5. Component Manufacture B.U.:

- New products development, production, and manufacturing

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

- Market information collection and analysis, 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 (Note 2)	-	-	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 (Note 2)	-	-	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	2,569,292	0.80	733,538	0.23
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.

Note 2: Representative of Lin Tan Investment Co., Ltd.

#### Major shareholder of juridical person shareholder

As of 4/7/2012

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 4/7/2012

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 4/7/2012

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, Panasonic Sales Taiwan Co., Ltd.	Representative of incorporated directors, EEIT	-	-	-
-	-	-	-	-	-	-
-	-	Master, Graduate Institute of Management Sciences, Tamkang University Project Leader Engineer, Chung-Shan Institute of Science and Technology	-	-	-	-
-	-	Bachelor, Department of Accounting, Providence University	Supervisor, EEIT Representative of incorporated directors, Infotech (China) Co., Ltd. and Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
-	-	Bachelor, Department of Physics, Tamkang University MBA, 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 Department, Feng Chia University Assistant Manager, Taiwan International Securities Corporation Vice President, Hyield Venture Capital Co. Director, Best Yield Development Consulting, Inc.	Director, Grand Fortune Securities Co., Ltd. Director, Wintech Microelectronics Co., Ltd. Director, Solytech Enterprise Co. Representative of Legal Supervisors, Leader Electronics Co. Director, Shieh Yih Machinery Industry Co., Ltd. Independent Director, Prolific Technology Co.	-	-	-
-	-	Bachelor, Chemical Engineering, National Cheng Kung University Master of Management, Chengchi University Vice Manager, Upking International Co., Ltd. President, Teraspan Technologies, Corp.	Chairman, Instant-Dict Co., Ltd	-	-	-
-	-	Bachelor, Accounting, Fu Jen Catholic University	Accountant, Honesty CPA Firm	-	-	-
-	-	Bachelor, Business Administration, National Taichung Institute of Technology	-	-	-	-
-	-	Doctor of Laws, National Chengchi University EMBA, National Chengchi University Section Chief, Financial Supervisory Commission, Executive Yuan-Securities and Futures Bureau, 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 <sup>th</sup> 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 third 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 Mangers 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	2,569,292	0.80	733,538	0.23	-	-
Vice President	Sheng-Yao Lu	07/01/2005	443,664	0.14	159,224	0.05	-	-
Vice President	I-Ta Lee	01/01/2006	217,278	0.07	-	-	-	-
Vice President	Hui-Bang Yeh	12/01/2007	338,525	0.11	-	-	-	-
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.

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, Panasonic Sales Taiwan Co., Ltd.	Representative of incorporated directors, EEIT	-	-	-
Bachelor, Physics, Tamkang University MBA, Macau University of Science and Technology	Representative of incorporated directors, Infortech (China) Co., Ltd and Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, Department of Accounting, Providence University	Supervisor, EEIT Representative of incorporated directors, Infortech (China) Co., Ltd. and 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, Fung Chia University	Representative of incorporated directors, Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, De Francais, Chinese Culture University	-	-	-	-
Master, Mining, Metallurgy and Materials Science Institute, National Cheng Kung University	Representative of incorporated directors, Holypag Electronics (DONG GUAN) Corporation	-	-	-
Master, Graduate Institute of Management Sciences, Tamkang University	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)	-	-	-	-	15,260	15,560	720	840	2.10	2.14
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 2011.

Note 2: The proposed profit sharing of 2011 will take effect upon the approval of directors at the Board before the Annual Shareholder Meeting in 2012.

Note 3: Net Income: 2011 net income.

Note 4: The Board adopted a proposal for 2011 employee profit sharing distribution of NT\$105,693 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.d.e
NT\$5,000,000~NT\$10,000,000	a	a	-	b
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 12/31/2011

Compensation Earned as Employee of Holy Stone or of Holy Stone's Consolidated Entities										Total Remuneration (A+B+C+D+E+F+G) as a % of Net Income (Note 5)		Compensation Paid to Directors from Nonconsolidated Affiliates
Base Compensation, Bonuses, and Allowances (E)		Retirement Allowance (F)		Employee Profit Sharing (G) (Note 4)				Exercisable Employee Stock Options (H)				
From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	From Holy Stone		From All Consolidated Entities		From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities	
				Cash	Stock	Cash	Stock					
10,369	12,815	-	-	N.A	N.A	N.A	N.A	1,870	1,870	3.46	3.81	Yes

## Remuneration Paid to Supervisors

Unit: NT\$ thousands      As of 12/31/2011

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)	-	-	4,558	4,858	720	840	0.69	0.74	None
Supervisor	Chung-Yi Yang (b)	-	-	4,558	4,858	720	840	0.69	0.74	
Supervisor	J.S. Chen (c)	-	-	4,558	4,858	720	840	0.69	0.74	

Note 1: The proposed profit sharing of 2011 will take effect upon the approval of directors at the Board before the Shareholder Meeting in 2012

Note 2: Net Income: 2011 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	-	-
<b>Total</b>	<b>3</b>	<b>3</b>

## Compensation Paid to President and Vice Presidents

Unit: Thousand shares/ NT\$ thousands As of 12/31/2011

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)	14,595	18,296	-	-	-	-	N.A	N.A	N.A	N.A	1.92	2.38	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 2011.

Note 2: The Board adopted a proposal for 2011 employee profit sharing distribution of NT\$105,693 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	f.g
NT\$2,000,000~NT\$5,000,000	a.c.d	a.b.c.d.e
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 12/31/2011

	Title	Name	Stock	Cash	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of Net Income
M a n a g e r s	President	Jing-Rong Tang	0	18,000	18,000	2.36
	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 2011 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 (%)			
		2011		2010	
		From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities
Directors		3.46 (note)	3.81 (note)	4.71	5.07
Supervisors		0.69	0.74	0.69	0.75
President & Vice Presidents		1.92 (note)	2.38 (note)	3.83	4.13

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 Incorporation, 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 executive management, contains salaries and employees bonus under the consideration of employee's position, responsibility, and performance, referring to peers' standard.

### 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 2011. 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	7	-	100.00	
Director	Representative of Lin Tan Investment Co., Ltd.: Yu-Min Wu	7	-	100.00	
Director	Shih-Yun Sheng	4	3	57.14	
Director	Shao-Kuo Huang	5	2	71.43	
Independent Director	Nai-Hua Wu	7	-	100.00	
Independent Director	Ken-Yi Cheng	7	-	100.00	
Supervisor	Tang-Ming Wu	7	-	100.00	
Supervisor	Chung-Yi Yang	7	-	100.00	
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 profession competence of the Board and its implementation:
  - (1) Apart from the already established independent directors, Compensation Committee is also established in 2012.
  - (2) The operation of the Board of Directors is in accordance with relevant provisions, the Articles of Incorporation, the Board's Procedural Rules and the discussion rules of Shareholders' meetings.
  - (3) 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 2011. 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	7	-	100.00	
Supervisor	Chung-Yi Yang	7	-	100.00	
Supervisor	J.S. Chen	6	-	85.71	

**Annotations:**

**1. Composition and responsibilities of supervisors:**

- (1) The communication between supervisors and employees and stockholders
  - i. Conduct inspection in the Company irregularly and communicating with employees at any time when necessary.
  - ii. Regularly attend the Board, shareholders' meeting, and other important conferences as an observer to communicate with employees and stockholders.
- (2) The communication between supervisors, internal audit manager, and CPA
  - i. Communication with internal audit manager
    - (i). The month following the completion of an audit project, an audit report is submitted to the supervisors. There were no dissenting opinions of supervisors on those audit reports.
    - (ii). An audit report is submitted preceding a regular board meeting. There were no dissenting opinions of supervisors on those audit reports.
  - ii. Communication with CPA
    - (i). Regularly communicate with accountants focusing on financial statements and corporate governance as well as acknowledging the 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 &amp; Shareholders' Rights</p> <p>(1) Method of handling shareholder suggestions or complaints</p> <p>(2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders</p> <p>(3) Risk management mechanism and "firewall" between the Company and its affiliates</p>	<p>(1) i. The Company has spokesman, public relation team, and stock affairs office to handle relative matters.</p> <p>ii. 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 maintain the list of main shareholders and its main controllers and to declare 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 "Procedures Governing Specific Companies, Groups, and Related Parties Transactions," "Regulations on Supervising Subsidiaries," "Endorsement / Guarantee Procedures," "Procedures on Loans to others," and "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) i. Before hiring a new accountant, the accountant will be evaluated on professionalism and independence by directors and supervisors with accounting and finance background.</p> <p>ii. On a regular basis, the Board will evaluate the CPAs' independence. The accountants and auditing company currently hired are neither related parties of the Company nor have any interests in the Company, and will hold the independency.</p>	<p>None</p> <p>None</p>
<p>3. Communication channel with stakeholders</p>	<p>(1) Designated personnel handles related matters.</p> <p>(2) Independent directors and supervisors should contact stakeholders directly when necessary.</p> <p>(3) Provide latest information through the Market Observation Post System and Holy Stone's website. Any stakeholders who are in need could contact the Company anytime through e-mail, phone, fax, or letter. Contact information is listed on M.O.P.S and the Company's website.</p>	<p>None</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
<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 website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)</p>	<p>(1) The Company has already set up a website which is updated regularly with the latest information on products, corporate introduction, and financial statements.</p> <p>(2) The Company has appointed spokespersons. In addition, designated personnel are responsible for information collection and disclosure. Investor conference materials, if any, are declared on the M.O.P.S before and after the event as well as on the Company's website.</p>	<p>None</p> <p>None</p>
<p>5. Operations of the Company's Nomination Committee, Compensation Committee, or other functional committees of the Board of Directors</p>	<p>The Company has established a Compensation Committee in 2012 and has convened a meeting according to regulations.</p>	<p>Other than Compensation Committee, the Company has not established other committees such as the Nomination Committee, or other functional committees. For the purpose of corporate governance, the Company will discuss the proposed deliberation, assess the issues, and execute based on relevant provisions and operational status.</p>
<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:  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 on the basis of the TWSE principles and exercised accordingly.</p>		
<p>7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, stakeholders rights, directors' and supervisors' training records, implementation of risk management policies and risk evaluation measures, implementation of customer policies, and purchasing of insurance for directors and supervisors):</p> <p>(1) Employee rights and employee wellness</p> <p>(1) 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 local restriction of evening shifts.</p> <p>(2) 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>(3) 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>(4) Holy Stone always takes safety into first consideration when designing factories or buildings. In addition to comfortable and safe working environment, employee health examinations and fire and emergency drills are conducted regularly. Holy Stone not only reminds employees to take care of their own 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 work environment safety examinations regularly 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 set self-expectations for "Zero Accidents."</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>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 workers and management.</p> <p>(2)Investor relations: Holy Stone's website provides updated sales revenue as well as the latest corporate news. Moreover, spokespersons and designated personnel are appointed to set up effective communication channels with investors and customers. The e-mail address is as follow: <a href="mailto:IR@holystone.com.tw">IR@holystone.com.tw</a></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 detail. Website: <a href="http://holystone.com.tw">http://holystone.com.tw</a></p> <p>(4)Rights of stakeholders: The Company has designated people taking different positions to communicate with each stakeholder and protect stakeholders' rights. Please refer to the Company's CSR Report for more detail.</p> <p>(5)Directors' and supervisors' attendance 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: <a href="http://mops.twse.com.tw">http://mops.twse.com.tw</a>.</p> <p>(6)Risk management policies: Please refer to P.61 - 63 of this Annual Report.</p> <p>(7)The implementation of customer policies: The Company complies with ISO 9001 and offers complete services to customers. The Company not only makes improvements on quality but also has technical discussions with customers depending on their requirements. Please refer to the Company's CSR Report for more detail.</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>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

#### 3.3.4.1. Formation and Responsibilities

After the board meeting on December 14, 2011, the board came to the conclusion that a Compensation Committee (herein below, "the Committee") is to be established. There are three members in the Committee, two independent directors from the board and one external party.

Their main responsibilities are:

- (1) Conduct regular meetings to review the Committee's regulations and propose amendments. For more detail, please refer to the Company's website.
- (2) Set and regularly review yearly and long-term performance goals, compensation policies, systems, standards and structures for directors, supervisors and managers.
- (3) Regularly evaluate completion rate of directors, supervisors and managers' performance goals. Also, set content and amount of each individual compensation.

#### 3.3.4.2. Operational Status

The chairman convened   1   compensation committee meeting(s) in 2011. The members' attendance status is as follow:

Title	Name	Attendance in Person	Attendance Rate in Person (%)	Remarks
Chairman	Ken-Yi Cheng	1	100.00	Independent Director
Member	Nai-Hua Wu	1	100.00	Independent Director
Member	Chu-Yang Chien	1	100.00	

### 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 policies and institutions for corporate social responsibilities, and reviewing results</p> <p>(2) Status of designating personnel to promote CSR</p> <p>(3) Status of establishing awards/disciplinary policy based on employees’ performance in the regular training programs to promote business ethics for directors, supervisors and employees</p>	<p>(1) The Company has collected and disclosed the results of corporate social responsibility activities in the CSR report. As posted on the Company’s website, CSR policies are as follow:</p> <ol style="list-style-type: none"> <li>1. Comply with legal requirements and standards of business ethics.</li> <li>2. Put corporate regulations into practice, creating corporate value and enhancing shareholders’ rights.</li> <li>3. Establish environmentally-friendly measures.</li> <li>4. Develop green products, reduce negative impact on the environment.</li> <li>5. Continuously improve work environment, looking after the needs of the employees</li> <li>6. Care for the minorities, encourage employees’ participation in community services.</li> </ol> <p>(2) The Company has assigned personnel responsible for promoting CSR, reviewing implementations regularly, and preparing CSR report.</p> <p>(3) Annual networking event for directors, supervisors and employees is held to promote corporate culture and management ideology. Its effectiveness is also included as a factor during an employee’s performance evaluation.</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 act for the protection of the environment</p> <p>(4) Status of attending to climate impact on operating activities, and developing strategies to reduce carbon emissions and greenhouse gases</p>	<p>(1) i. Implement waste management, reuse waste solvents, reduce amount of purchase, and ultimately ease the impact of environmental harm.</p> <p>ii. With quality assurance and customers’ approval, the Company uses recycled material with low environmental impact as priority.</p> <p>(2) Qualify for ISO 14001 Environmental Management System certificate.</p> <p>(3) Set up an Environmental Safety Division</p> <p>(4) Regularly check environment-related regulations to maintain compliance; promote energy-saving and environmental protection activities; invest in pollution control equipments.</p>	<p>None</p> <p>None</p> <p>None</p> <p>None</p>
<p>3. Protect Social Welfare</p> <p>(1) Status of complying to 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</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 hazard-free work environment and training employees on safety and health issues regularly	<p>complaints, create a complaint system and harassment prevention measures to protect employees' rights.</p> <p>(2)i. Conduct regular health examinations, hold health promotional activities, strengthen employees' knowledge 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 emergency procedures training for chemical leakage and safe operation of gas.</p> <p>ii. Form suitable emergency response 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)i. Set up sales personnel to resolve customer complaints.</p> <p>ii. Handle customer complaints in accordance with "Customer Complaints Procedure."</p> <p>iii. Periodically conduct customer satisfaction survey.</p>	None
(4) Status of cooperation between the Company and its vendors to raise awareness of Corporate Social Responsibility	<p>(4)i. Promote the Company's environmental policies to build a green supply chain. 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>ii. Suppliers are responsible to ensure their labor employment policies comply with international standards, grant employees human rights, and refuse to hire illegal employees.</p> <p>iii. Require vendors to use recycled packaging material 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)i. Holy Stone Foundation was founded in December 2001 aiming to help the community and assist disadvantaged families. Other than establishing Emergency Aid to help disadvantaged families in emergency, scholarships are also offered 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>ii. 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>iii. Holy Stone Volunteers: Formed in 2011, Holy Stone Volunteers promotes corporate social responsibility, allowing employees to take</p>	None

Item	Implementation Status	Deviation from rules as stated by the "CSR Best Practice Principles for TWSE/GTSM-Listed Companies" and the reasons
	action in helping the community while broadening each individual's vision and experience. iv. Holy Stone's Goodwill Team: The Goodwill Team holds second-hand sales, which proceeds are donated in full to non-profit foundations to help those in remote areas.	
4. Promoting Information Transparency (1) Method of disclosing relevant and reliable information related to corporate social responsibility  (2) Status of disclosing the promotion of corporate social responsibility in CSR report	(1) Disclose commitments on corporate social responsibility under "Corporate Social Responsibility" section on the corporate website.  (2) Disclose CSR report annually on the corporate website. Please refer to: <a href="http://www.holystone.com.tw">http://www.holystone.com.tw</a>	None  None
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 are associated with the legal requirements. And we have also prepared CSR reports based on the guidelines. The Company's self-assessment result shows that there is no deviation between the two.		
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 Report; please refer to the Company's website.		
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 in accordance to "Industrial Sustainable Development and International Environmental Protection Standards Project" from the Ministry of Economic Affairs, without seeking external certification parties' consultation.		

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

The Company believes in anti-corruption, transparency, reliability, and compliance. 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 "Board's Rules of Procedure" and "Procedures for Important Internal Information Management." Other policies such as "Accounting Policies" and "Internal Control System" also ensure the Company's integrity management.

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

1. Holy Stone's regulations:

- (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
- (9) Organizational Rules of the Compensation Committee

2. 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 CSR Report which is available on the website: [www.holystone.com.tw](http://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 16, 2012

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, 2011 to December 31, 2011:

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 2011, 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 16, 2012, 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: 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 2011 and as of May 14, 2012

None.

3.3.11. Important Decisions Made by Shareholder Meeting and the Board during 2011 and as of May 14, 2012.

Major resolutions of Shareholders' Meeting and Board Meetings during 2011 and as of May 14, 2012 are summarized as follows:

Date	Decided by	Major Resolutions	Implementation Status
2011.06.10	Shareholders' Meeting	1.The approval for 2010 business report and financial statements. 2.The approval for the distribution of 2010 profits.	All resolutions have been passed without any participating shareholders expressing dissenting opinions and fully implemented accordingly.
2011.01.24	Board Meeting	The approval for 2011 business report.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2011.03.18	Board Meeting	1. The approval for 2010 business report and financial statements (including consolidated reports). 2. The approval for the distribution of 2010 profits. 3. The approval for buying back company shares and transferring to employees. 4. The approval for convening the 2011 Annual Shareholders' Meeting. 5. The approval for 2010 Statement of Internal Control System. 6. The approval for endorsement/guarantee for subsidiary.	1. All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly. 2. Resolutions 1 and 2 have been fully implemented in accordingly.

Date	Decided by	Major Resolutions	Implementation Status
2011.06.10	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval of ex-dividends by cash dividends payment.</li> <li>2. The approval for the amendment of the Company's "Measures for Fourth Common Stock Buybacks and Distribution to Employees"</li> </ol>	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2011.06.10	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval for lending funds among subsidiaries.</li> <li>2. The approval for extending Holy Stone Polytech Co., Ltd.'s financial endorsement/guarantee upon maturity.</li> <li>3. The approval for the changes in directors of Holy Stone Int'l Trading (Shanghai) Co., Ltd. and also releasing directors from the restriction of non-competition clause.</li> </ol>	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2011.08.26	Board Meeting	The approval for the first half of 2011 financial statements and consolidated financial statements.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions.
2011.12.14	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval for forming a Compensation Committee and developing organizational rules for the committee.</li> <li>2. The approval for assigning Compensation Committee members.</li> <li>3. The approval for the Company's 2012 internal audit plan.</li> </ol>	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2012.01.11	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval of compensations for directors, supervisors and managers.</li> <li>2. The approval for the business plan for 2012.</li> </ol>	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2012.03.16	Board Meeting	<ol style="list-style-type: none"> <li>1. The approval for 2011 business report and financial statements.</li> <li>2. The approval for the distribution of 2011 profits.</li> <li>3. The approval for the amendment of the Company's "Articles of Incorporation."</li> <li>4. The approval for the amendment of the Company's "Directors' and Supervisors' Voting System."</li> <li>5. The approval for directors' (including independent directors) and supervisors' reelection.</li> <li>6. The approval for nominating and evaluating qualifications of independent directors.</li> <li>7. The approval for releasing directors' from the restriction of non-competition clause.</li> <li>8. The approval for the amendment of the Company's "Procedures Governing the Acquisition and Disposal of Assets."</li> <li>9. The approval for convening the 2012 Annual Shareholders' Meeting.</li> <li>10. The approval for 2012 Statement of Internal Control System.</li> <li>11. The approval for the amendment of the Company's Internal Control System.</li> <li>12. The approval for the amendment of the Company's internal audit plan.</li> </ol>	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2012.04.10	Board Meeting	The approval for examining shareholder proposals for 2012 Shareholders' annual meeting and nominees for independent directors.	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have 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 2011 and as of May 14, 2012.

None.

### 3.3.13. Information on personnel relating to Financial Reports

3.3.13.1. During 2011 and up to May 14, 2012, collection of resignation and dismissal of personnel related to financial reports

None.

3.3.13.2. Personnel related to the Company and its financial transparency, obtaining relevant license by competent authorities:

One Accounting Manager with Republic of China Certified Professional Accountant (CPA) license; further educated according to relevant regulations, and which education hours meets the standards set by competent authority.

### 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	2011.01.01~2011.12.31	-

Unit: NT\$ 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 Accounts for Over a Quarter of Audit Fee or over NT\$500 Thousand: None.

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

3.4.3. Audit Fee is Fifteen Percent less 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 within the past year, 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	2011		2012.01.01~2012.04.07	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman & President	Jing-Rong Tang	-	-	-	-
Director	Lin Tan Investment Co., Ltd. Representitive: Chyang Lo	-	-	-	-
Director	Lin Tan Investment Co., Ltd. Representitive: Yu-Min Wu	-	-	-	-
Director & Vice Executive President	Shih-Yun Sheng	-	-	-	-
Director & Vice President	Shao-Kuo Huang	(120,000)	-	-	-
Independent Director	Nai-Hua Wu	-	-	-	-
Independent Director	Ken-Yi Cheng	-	-	-	-
Supervisor	Chung-Yi Yang	-	-	-	-
Supervisor	Tang-Ming Wu	-	-	-	-
Supervisor	J.S Chen	-	-	-	-
Vice President	Yu-Min Wu	-	-	-	-
Vice President	Sheng-Yao Lu	-	-	-	-
Vice President	I-Ta Lee	(77,000)	-	-	-
Vice President	Hui-Bang Yeh	(19,000)	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang	(3,000)	-	-	-

3.7.2. Information on Share Transfer: None.

3.7.3. Information on Pledged Shares: None.

### 3.8. Information on the Ten Largest Shareholders who are Related Parties to Each Other According to Statement of Financial Accounting Standards No. 6

None of Holy Stone's ten 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 12/31/2011

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.	45,000,000	100.00	-	-	45,000,000	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 04/07/2012

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. Shareholders Structure

Unit: Shares as of 04/07/2012

Number \ Type	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Repurchase Stock	Total
Number of Shareholders	2	7	79	93	32,396	1	32,578
Shareholding	64	22,252,323	53,432,038	24,036,803	219,633,226	863,000	320,217,454
Holding Percentage	0.00%	6.95%	16.69%	7.51%	68.58%	0.27%	100.00%

#### 4.1.3. Distribution Profile of Share Ownership

As of 04/07/2012

Shareholder Ownership	Number of Shareholders	Ownership	Ownership(%)
1-999	9,407	1,636,375	0.51%
1,000-5,000	16,110	35,380,969	11.05%
5,001-10,000	3,588	26,365,984	8.23%
10,001-15,000	1,334	16,125,399	5.04%
15,001-20,000	623	11,261,683	3.52%
20,001-30,000	570	13,877,750	4.33%
30,001-40,000	285	10,061,850	3.14%
40,001-50,000	155	7,135,181	2.23%
50,001-100,000	279	19,287,946	6.02%
100,001-200,000	126	17,639,344	5.51%
200,001-400,000	37	10,328,541	3.23%
400,001-600,000	10	4,623,482	1.44%
600,001-800,000	10	7,007,996	2.19%
800,001-1000,000	4	3,453,764	1.08%
Over 1,000,001	40	136,031,190	42.48%
Total	32,578	320,217,454	100.00%

#### 4.1.4. List of Principal Shareholders

As of 04/07/2012

Shareholders	Shares	Total Shares Owned	Ownership(%)
Lung Ko Investment Co., Ltd.		15,381,439	4.80%
Lin Tan Investment Co., Ltd.		14,707,623	4.59%
Jing-Rong Tang		11,592,549	3.62%
Nan Shan Life Insurance Co., Ltd.		11,187,762	3.49%
Shin Kong Life Insurance Co., Ltd.		10,199,270	3.19%
Fang Hao Investment Co., Ltd.		6,766,870	2.11%
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%
Public Service Pension Fund Management Board		3,063,898	0.96%

#### 4.1.5. Market Price, Net Worth, Earnings, Dividends per Common Share, and Relevant Information for the past two years

Unit: Thousand of shares / NT\$

Item		Fiscal Year	2010	2011	01/01/2012 ~04/30/2012
Market price per share	Highest market price		54.50	38.60	30.80
	Lowest market price		33.95	24.50	25.30
	Average market price		42.45	31.72	28.29
Net worth per share	Before distribution		29.27	28.40	28.90(Note 5)
	After distribution		26.97	(Note 1)	-
Earnings per share	Weighted average shares		300,779	319,599	319,354
	Earnings per share		2.77	2.38	0.50
Dividends per share	Cash dividends		2.30	2.00(Note 1)	-
	Stock dividends	From retained earnings	-	-	-
		From capital surplus	-	-	-
	Accumulated undistributed dividends		-	-	-
Returns on investment	Price / Earnings Ratio (Note 2)		15.32	13.33	-
	Price / Dividend Ratio (Note 3)		18.46	15.86(Note 1)	-
	Cash Dividend Yield (Note 4)		5.42%	6.31%(Note 1)	-

Note 1: Finalize at the 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, 2012.

#### 4.1.6. Company's Dividend Policy and Implementation

##### 4.1.6.1. Dividend Policy

For the Company's mid-term and long-term operating growth and capital needs 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 Status of approved dividends allocation

1. On March 16, 2012, Holy Stone's Board of Directors approved a proposal for distribution of 2011 profits with a cash dividend of NT\$2.00 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 down, 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 Annual Shareholders' Meeting. Causes of changes in current outstanding shares include, but not limited to, cash capital increase, repurchase of treasury stock, transfer and cancellation of treasury stock, the exercise of convertible corporate bond, the exercise of employee stock option, and so on.

4.1.7. Effect upon business performance and EPS of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting: The Company proposed to allocate all dividends during 2011 in cash, so there is no impact to 2012 business performance and EPS.

#### 4.1.8. Employee bonuses and compensation of directors and supervisors:

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. Pay all Income tax required by law.
2. Offset past accumulated deficits.
3. Distribute 10 percent to legal reserve after items 1 and 2, except if amount in legal reserve exceeds paid-in capital.
4. Distribute accordingly for special reserve based on regulations.
5. The remainder of the unappropriated retained earnings, deducting the abovementioned items 1 to 4 from earnings, shall be distributed to directors, supervisors, and employees as follows:
  - (1) Directors and supervisors' compensations are no more than 3%.
  - (2) Employee bonus 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 items 1 to 5 is distributed as dividends and bonuses to shareholders after approval by the Annual Shareholders' Meeting..

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 2011 made by the Board and past distribution status, employees' bonus and directors' and supervisors' remuneration of 2011 are NT\$105,693 thousand and NT\$19,818 thousand respectively, 16 percent and 3 percent of the amounts deducting 10% of 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 2012 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 16, 2012, the Board approved for the distribution of NT\$105,693 thousand of employees' bonus and NT\$19,818 thousand of directors' and supervisors' compensation, which will be paid in cash. Subsequently, if there is discrepancy after the Annual Shareholders' Meeting, the difference shall be recognized as expenses in 2012.
2. The number of shares in any proposed distribution of employee stock dividends, and the size of such distribution as a percentage of capital increase paid out of earnings: Not applicable to the Company because no stock dividend was distributed.
3. The effect upon imputed earnings per share of any proposed distribution of employee dividends and director/supervisor compensation: Not applicable because both employee dividends and

director/supervisor compensation have been expensed.

4.1.8.4. The distribution of earnings to Employee Profit Sharing and Directors and Supervisors Remuneration in 2010

1. The Company distributed NT\$117,000 thousand of employees' bonus, and NT\$22,000 thousand of directors' and supervisors' remuneration of 2010. Total dividend is 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\$105 thousand, which was recognized on the 2011 Statement of Income.

4.1.9. Buyback of Common Stock

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 863,000 shares
Amount of shares Bought back	NT\$30,842 thousand
Shares that would be Sold and Transferred	-
Cumulative number of shares of the Company	863,000 shares
Percentage of cumulative number of shares over Total Outstanding shares	0.27%
Reason for incomplete buyback past the declared Buy back period	To maintain the interests of shareholders, taking into account the market trading mechanisms and price stability, while using funds effectively, the Company has adopted a policy to buy back in batches. And since the stock price has stabilized, the number of shares buyback is less than the projected amount.

## 4.2. Issuance of Corporate Bonds

### 1. Issuance of Corporate Bonds

As of 04/30/2012

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 according to Article 10, redeemed before maturity according to Article 18, or sold by the bond bearer beforehand according to Article 19.	
Amount Outstanding	NT\$570,500,000	
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 2011 was \$2.38, similar to 2010's \$2.77; showing past financing activity did not have significant dilution effect on equity value	
Custodian	Not applicable	

## 2. Information on Convertible Bonds

Type of Corporate Bond		Third Domestic Unsecured Convertible Bond		
Year		2010	2011	2012/01/01~2012/04/30
Item				
Market Price of Convertible Bond	Highest	114.50	108.20	102.00
	Lowest	104.00	98.20	99.55
	Average	109.03	103.45	100.52
Convertible Price		NT\$39.80 since 2010/08/04	NT\$37.12 since 2011/08/16	
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 04/30/2012

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 <sup>nd</sup> Year: up to 50% 3 <sup>rd</sup> Year: up to 25% 4 <sup>th</sup> Year: up to 25%	2 <sup>nd</sup> Year: up to 50% 3 <sup>rd</sup> Year: up to 25% 4 <sup>th</sup> Year: up to 25%	2 <sup>nd</sup> Year: up to 15% 3 <sup>rd</sup> Year: up to 15% 4 <sup>th</sup> Year: up to 25% 5 <sup>th</sup> Year: up to 25% 6 <sup>th</sup> 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\$34.0	NT\$38.70	NT\$35.40
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 0.47%; therefore, there is limited dilution effect.	The dilution ratio to original common stock stockholders' equity is 1.09%; therefore, there is limited dilution effect.	The dilution ratio to original common stock stockholders' equity is 3.12%; 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/ Thousands of NT\$ As of 04/30/2012

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)	1.07%	-	-	-	-	1,500 (Note 1)	31.4	47,100	0.47%
Vice Executive President	Shih-Yun Sheng										
Vice President	Yu-Min Wu										
Vice President	Shao-Kuo Huang										
Vice President	Sheng-Yao Lu							3,500 (Note 2)	38.7	135,450	1.09%
Vice President	I-Ta Lee										
Vice President	Hui-Bang Yeh										
Manager of Finance and Accounting Department	Shu-Ying Chang							10,000 (Note 3)	35.4	354,000	3.12%
Corporate employees		11,580	3.62%								

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: Current options granted price

#### 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:

(1) 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.

(2) 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.

(3) Proceeds from bank loans – NT\$333,921 thousand 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 2012 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	1,495,921	100%	1. 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. 2. MLCC equipment supplier's delivery date has been postponed, causing delays in payments. 3. Customers' approval for thermal ceramic substrates was postponed, consequently causing purchases of equipments to be pushed back to match production needs.
		Actual	1,081,725	72%	
Total	Capital Expensed	Projected	2,155,921	100%	
		Actual	1,741,725	81%	

#### 4.8.1.3. Evaluation of benefits

Unit: Thousands of NT\$

	2010	2011	Increase (Decrease) in Capital	Increase (Decrease) Percentage
Current Assets	7,617,009	7,451,373	(165,636)	(2.17%)
Long-term Assets	2,607,536	2,703,902	96,366	3.70%
Current Liabilities	2,955,069	3,646,157	691,088	23.39%
Total Liabilities	3,893,029	3,774,760	(118,269)	(3.04%)
Revenue	12,680,725	13,146,941	466,216	3.68%
Cost of Goods Sold	11,199,055	11,866,080	667,025	5.96%
Operating Profit	713,286	551,604	(161,682)	(22.67%)
Interest Expense	19,753	19,586	(167)	(0.85%)
EPS (NT\$)	2.77	2.38	(0.39)	(14.08%)

#### 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 (2011)

Item	Shares of Sales Revenue
Passive Components	30.27%
Active Components	21.34%
System & Module	16.03%
Other Components	32.36%
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

New products Holy Stone plans to develop:

- (1) MLCC with BME Medium-pressure high-capacity
- (2) MLCC for power supply and LED application
- (3) Capacitors for industrial and medical equipment applications
- (4) Radiation heat dissipation material
- (5) Thermal substrate developed with thick-thin film hybrid technology
- (6) MLCC powder
- (7) Tantalum (Niobium) capacitors

### 5.1.2. Industry Overview

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

In the year of 2011, there were several calamitous events, whether by nature or by human factors, such as the earthquake in northeast Japan, damage of the nuclear plant, Thailand's flood, high unemployment rates, and the debt concerns in the European countries. These events caused the global economy to plummet in the second half of 2011. With weak consumer demand and slow recovery in the economy, the International Monetary Fund (IMF) lowered global GDP growth for 2012 from 4% to 3.5% in April. Focusing on Taiwan's market, Barclay in March estimated Taiwan 2012 GDP growth to be 3%, benefiting from improvements in the supply chain as well as stimulus from emerging products. However, growing costs in gasoline and electricity along with slowing growth from the Chinese market will bring in uncertainties for the future economy.

The portfolio of Holy Stone's products is segmented into four groups: Passive components, active components, system and modules, and other components. And the description on each segment goes as follows:

Passive components industry: 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 MLCC and tantalum (niobium) capacitors with high pressure, safe and special specification, while distributing aluminum capacitors from Japanese suppliers. Currently, Holy Stone focuses on capacitors within the passive components segment since these components are widely used in consumer and industrial electronic products (computer, mobile phone, network equipment, television, digital camera, power supply, automotives, etc.). Demand is closely linked to that of end-user markets. In 2011, global markets came to a halt, and even the biggest international manufacturers were affected. Among the affected companies, Japanese MLCC suppliers faced the most severe damages. They laid off workers and cut prices, reflecting desperate situations within the notebook and TV markets. Looking forward to 2012, passive components industry is expected to revive as demand for smart phones rises, LED lighting industry takes off, and computer brand manufacturers launch new ultrabook models. All of these products require components of different specifications from the past, and this is expected to stimulate growth in the industry.

Active components industry: The Company distributes a variety of semiconductor components, with telecommunication and network IC as the main products. In the year 2011, according to technology research group Gartner, semiconductors industry has been growing at a rate of 5.1%. Japan's earthquake and Thailand's flood caused an imbalance in the global semiconductor supply chain. If it wasn't for the dollar's sharp depreciation, the growth rate would only be 0.7%. Gartner estimated 2012 growth rate to be 4%, with the industry picking up at the end of the second quarter. In 2011, orders tightened as the TV industry was affected by the low demand in China, and IC manufacturers' inventory correction lasted three quarters. On the bright side, 2012 growth is expected to be driven by the communications industry when power amplifiers will benefit from the competition among new ultrabooks and the embedded 4G components.

System and modules industry: Product lines in this segment are mainly distributed ICs with add-on value. Microcontrollers (MCUs) are the main products, further segmenting into three groups: 8-bit, 16-bit, and 32-bit. Applications include automotives, industrial, home appliances, consumer electronics, computer peripherals, and medical electronic markets. According to IC Insights, MCU market grew 4% in 2011, with market size reaching US\$17.2 billion in 2012 with a 9% growth rate. As consumer products become more multi-functional and the framework more complicated, the number of MCUs required in one end-product is slowly increasing to support higher energy efficiency. Because of function differentiation and efficiency costs considerations, market for 16-bit MCUs is predicted to surpass 8-bit MCUs for the first time in 2012. For applications, MCUs are still mainly applied in automotives, with smart card and touch controller markets having the most potential to growth.

Other components industry: Other than passive and active components, Holy Stone also distributes a number of other electronic components such as fan motors, filters, batteries, CDDs, etc. According to Industrial Economics & Knowledge Center (IEK), although notebooks and ultrabooks stirred competition, 2011 growth rate for electronic components was only 5.1%, with weaker consumer demand in the US and debt concerns in Europe. Continuing on with the situation in 2011, global growth will be driven mainly by 3C products. With tablet PCs, smart phones, and ultrabooks the main drivers, growth in electronic components will reach 7.7%.

Vendors for Holy Stone's passive components supply ceramic, tantalum (niobium) powder, and internal/external electrodes. Holy Stone distributes semiconductors and other electronic components from international companies (such as Skyworks, Microchip, and Panasonic). Having diverse product lines, our customers spread among information, telecommunication, consumer electronics, automotives and industrial component markets. Our main competitors are international passive component manufacturers 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 2011 and up to the date of this Annual Report

Unit: Thousands of NT\$

Item	2011	Up to April 30, 2012
R&D expenditures	103,347	37,875
Net sales	13,146,941	3,884,047
Percentage	0.79%	0.98%

#### 5.1.3.2 Successful development of manufacturing services and technologies

While the Company continues to develop MLCC and tantalum (niobium) capacitors for 3C industries, we are also focused on LED lighting, high-end power supply, industrial machinery, and medical equipment applications for developing technologies in filter capacitors with special specification, related material compositions and green production. Furthermore, the Company has completed the process development for thin-film substrate and mass production for the product has started.

#### 5.1.4. Short-term and Long-term Development Strategies

##### 5.1.4.1 Promotion Strategies

###### (1) Short-term

- A. Actively participate in Optical Exhibitions in Greater China, increasing Holy Stone brand's presence.
- B. Develop specialty components to meet customers' demand.

###### (2) Long-term

- A. Develop distribution network in Greater China.
- B. Strengthen professional competence of the customer service staff.
- C. Expand customer base in Europe and the USA.

##### 5.1.4.2 Production Policies

###### (1) Short-term

- A. Increase production efficiency and lower costs.
- B. Expand manufacturing equipments and increase productivity.

###### (2) Long-term

- A. Introduce and import Aras system for more effective project execution.

## 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 2011 and 2010**

Unit: Thousands of NT\$

Area \ Year	2010		2011	
	Gross Sales	Percentage	Gross Sales	Percentage
Taiwan	2,952,302	23.28%	2,516,916	19.14%
China	9,250,873	72.95%	10,047,328	76.42%
USA	155,715	1.23%	154,407	1.18%
Others	321,836	2.54%	428,290	3.26%
Total	12,680,726	100.00%	13,146,941	100.00%

#### 5.2.1.2 Market share

The Company's main products are capacitors, active components, and system and modules. Net sales totaled NT\$13,146,941 thousand in 2011. These products contribute significant shares in the market.

### 5.2.1.3 Supply and demand status and growth of future market

Holy Stone's products are broadly applied to telecommunications, information, consumer electronics, automotives and industrial electronics markets. End products include computers, mobile phones, networks equipment, consumer products, automotives, power supply, home appliances, industrial equipments and so on. Figures in the following chart are 2012 forecasted growth in shipments made by international research institutions.

Product	2011	2012 (F)
Desktop Computer	0.5%	1.3%
Notebook	2.0%	4.4%
All PCs	3.8%	4.4%
Ultrabook	2.0%	13.0%
Tablet PC	274.0%	63.0%
Smart Phone	63.0%	40.0%
White-Label cell phone	-18.2%	-2.7%
Regular Handset	-2.4%	-7.6%
All Handsets	11.1%	6.9%
Consumer Electronics	8.0%	5.0%

Source: CEA, Gartner, IDC, IHS iSuppli, Topology

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 (niobium) capacitors and distribution of aluminum capacitors. Market leaders in shares and in technology for MLCC are Japanese and Korean manufacturers. With electronic products trending towards small and light, technologies and productivities have been constantly improved to meet customer demands. For the past few years, international MLCC providers had been expanding production in order to increase market share, resulting in continuous decline of MLCC prices. With Japanese suppliers taking the lead in price cuts, prices in third quarter of 2011 dropped 10%. Looking forward to 2012 as global economy revives, there are several growth drivers for the MLCC market: stimulation from end-products' increasing functionality such as those in smart phone functions and smart home appliances; new demand from emerging products and technologies such as ultrabook and 4G; increasing competition from other down-stream products such as new tablet PC models, and penetration of LED lighting sprouts demand in high capacitance and high voltage MLCCs. Moreover, the Company focuses on developing niche MLCC products (such as aerospace and military application), and such demand are more stable since there are relatively fewer suppliers. Holy Stone will continue to expand our market share actively.

Since April 2010, Holy Stone started manufacturing tantalum (niobium) capacitors. Currently the main suppliers of tantalum capacitors are in Japan and the U.S. Comparing 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 with higher efficiency, tantalum capacitors become irreplaceable in the market. It is widely used in computers, mobile phones, communication equipments, digital cameras, game consoles, automotive equipments, small electronic equipments, etc. In 2011, raw material prices for tantalum material increased 150% due to its scarcity and high mining costs. As tantalum mines reopen in Australia and Canada, and disputes settle in Congo, Africa for tantalum exports, supplies will increase substantially and prices will stabilize. Holy Stone will continue to invest in tantalum capacitors to provide

a wider selection to meet the needs of customers around the world.

**Active components:** Holy Stone distributes active components such as power amplifiers, switches, diodes mostly used in network, communications, and mobile phone markets. For network and communications market, handheld equipments and corporate network equipments such as accelerators, Ethernet switches, and network security devices will experience steady growth. Gartner estimates market for network and communication devices to grow 6.9% in 2012. With technology breakthroughs in handheld devices and Chinese service providers expanding network coverage, the industry is slowly altering consumers' habit of using electronics as well as their reliance of having network connections wherever and whenever. This is the reason WLAN chips are the most prominent component within smart phones and tablet PCs. In addition, market growth for smart phones and tablet PCS in 2012 will be 40% and 63%, respectively. And Taiwan's smart phone industry is expected to triple, having the highest growth rate within the mobile communications industry.

**System and modules:** New product designs are inseparable from miniaturization, integration to one component, and carbon reduction. And for MCU applications, suppliers focus on automation and intelligent applications. Because of higher customer requirements for product functionalities, white goods, automotive, and other consumer electronics are the major growth drivers within the MCU market. The product's share in automotives markets will reach 30%, valuing at US\$6 billion in 2012. Taking an example from a single product, the total value of MCUs used in one high-end vehicle can reach US\$400, reflecting high potential in growth in automotives market. Although investments in R&D tightens and development slows down as global economy weakens, China's MCU market has just entered development stage. Moreover, as growth in China's market is implemented by the government with targets to develop IoT and Triple play, progress is expected to be faster than the rest of the world at least for five years. Holy Stone has set up branch offices in major cities off the coast and inland China to provide total solution to customers and to grow with the aforementioned markets.

**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 2012 relies heavily on advanced notebooks, smart phones, smart networks, etc. The Company's ceramic substrate is mainly used in LED lighting. According to IEK's 2011 report, with governmental efforts in promoting LED lighting, the product has the highest share in the overall LED market segmentation with 29.5% share, followed by LCD TV. Since light bulb and fixture prices are becoming more reasonable and luminous efficiency continues to improve, LED lighting penetration rate is on the rise. Pike Research predicted that sales of light bulb and fixtures will leap 7 times, from 66 million units in 2011 to 542 million units in 2021. In 2015, the lighting segment will have a market share of 57.4% within the industry. Holy Stone sets high-power LED lighting and low-power niche lighting as its focus, taking control of the market segment with steady growth rate.

#### 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. Own technologies of developing high voltage, high capacitance, and special capacitors.
- C. Owns technology of developing polymer tantalum capacitors.
- D. Expand components distribution line and invest in system integration, establishing a variety of

business development.

(2) Disadvantages and responsive strategies

A. Major materials rely on imports

Responsive strategies:

(A) Invest in up-stream raw materials development, and communicate with overseas factory with the expectation of possessing material testing and improvement abilities, as well as the ability to design capacitors with various specifications.

(B) Increase the number of suppliers and maintain good relationship with present suppliers in order to reduce risks of raw materials shortage.

B. Increasingly intense market competition

Responsive strategies:

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

(B) Distribute competitive products, expand new distribution lines, and provide integrated solutions to maintain stable sales revenue and product diversification.

C. Inventory pressure formed easily due to great volatilities in the market.

Responsive strategies:

(A) Develop customer pool; aside from applications in information and communication, expand military, automotives, lighting, and green markets.

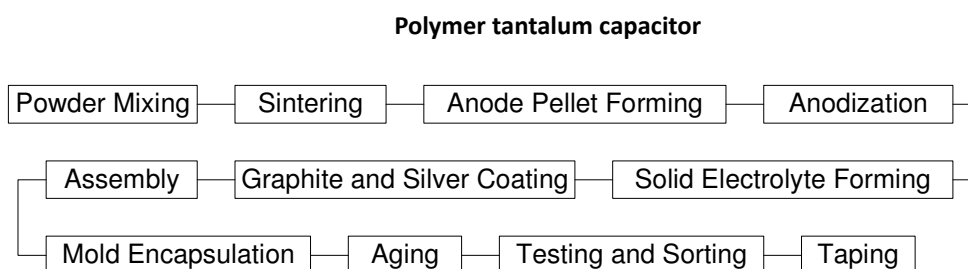
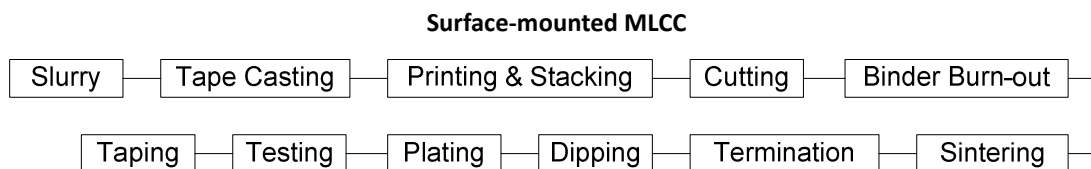
(B) Establish ERP (Enterprise Resource Planning) System, closely control and monitor inventory levels.

## 5.2.2. Application of Major Products and its Production Process

### 5.2.2.1 Major products and its application

Capacitors are basic components in 3C electronics. In information electronics industry, capacitors are applied to motherboard, VCG card, sound card, CD/DVD ROM and so on. In communication electronics industry, they are applied to mobile phone, fax machine, digital internet service, modem and so on. Furthermore, in consumer electronics industry, they are applied to video camera, CD audio, optical disk driver, set-top box and so on. In the industrial electronics industry, they are applied to power supply, inverter, converter and so on. In photonics industry, they are mainly applied to LCD panel. Finally, newly-developed special capacitors are used mainly in military and industrial applications, for example, aerospace.

### 5.2.2.2 Production process



### 5.2.3. Suppliers of Major Materials

In order to ensure steady supply of electronic components, the Company not only maintains good relationship with present vendors but also develops new vendors positively to increase supply sources and cut down costs. Current list of major products/raw materials and its suppliers 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 2010-2011

#### 5.2.4.1 Major suppliers list

Unit: Thousands of NT\$/ %

Item	2010				2011				First quarter of 2012			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	A	3,164,362	28.26	None	A	3,412,941	31.62	None	A	751,912	32.22	None
2	D	2,089,871	18.66	None	F	1,623,760	15.04	None	F	493,090	21.13	None
3	B	1,973,517	17.62	None	B	1,406,532	13.03	None	B	311,456	13.35	None
4	E	466,044	4.16	None	D	577,873	5.35	None	G	81,455	3.49	None
	Others	3,505,133	31.30	—	Others	3,772,300	34.96	—	Others	695,520	29.81	—
	Total	11,198,927	100.00	—	Total	10,793,406	100.00	—	Total	2,333,433	100.00	—

#### 5.2.4.2 Major customers list

Unit: Thousands of NT\$/ %

Item	2010				2011				First quarter of 2012			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	c	1,705,904	13.45	None	c	2,501,737	19.03	None	c	384,881	13.64	None
	Others	10,974,821	86.55	—	Others	10,645,204	80.97	—	Others	2,436,727	86.36	—
	Total	12,680,725	100.00	—	Total	13,146,941	100.00	—	Total	2,821,608	100.00	—

### 5.2.5. Production Quantity & Value Table 2010-2011

Unit: KPCS/ Thousands of NT\$

Year	2010			2011		
	Capacity	Production Quantity	Production Value	Capacity	Production Quantity	Production Value
Capacitor	17,000,000	9,460,577	1,973,345	20,000,000	8,395,070	1,710,321

### 5.2.6. Sales Quantity & Value Table 2010-2011

Unit: KPCS/ Thousands of NT\$

Items & Amount	2010		2011		2011		2011	
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Passive Components	3,901,264	1,372,954	6,544,508	2,843,588	1,872,781	923,375	7,685,728	3,056,529
Active Components	65,965	385,609	414,898	2,162,014	112,655	537,612	462,825	2,268,187
System & Modules	38,805	967,121	90,509	1,496,003	41,167	894,466	89,194	1,212,249
Others	44,814	226,617	361,577	3,226,819	11,556	161,463	487,318	4,093,060
Total	4,050,848	2,952,301	7,411,492	9,728,424	2,038,159	2,516,916	8,725,065	10,630,025

\*Figures of 2010 have been adjusted and characterized accordingly.

### 5.3. Employee Data 2010-2011

Year		2010	2011	As of April 30, 2012
Number of Employees	Direct Employees	382	361	376
	Indirect Employees	472	454	446
	Total	854	815	822
Average Age		34.35	35.09	35.23
Average Years of Employment		5.33	6.11	6.19
Level of Education (%)	Ph.D.	0.23	0.12	0.12
	Master's Degree	6.56	7.00	6.81
	Bachelor's & Associate Degree	53.63	52.02	52.07
	Senior High School	37.00	38.04	38.20
	Others	2.58	2.82	2.80

## 5.4. Disbursements for Environmental Protection

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

### 5.4.1. Total Loss and Fines for Environmental Pollution for the most recent Fiscal Year and as of the date of this Annual Report.

Total loss and fines of the Company for environmental pollution during 2011 and as of the date of this Annual Report totaled NT\$250,000, and the Company has been carrying out various improvement measures in order to achieve zero pollution..

### 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 fulfill social corporate responsibility; establish a green corporation and develop green products; protect the environment and reduce processed wastes; continue to improve the 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 periodic examinations on the disposal of polluted water but also renews water disposal systems and acquires the "Discharge Permit."

#### 5.4.2.4 Disposal of exhaust gases: The Company has complete emission control systems. With new acquisitions on production equipments, the Company also strengthens its pollution prevention projects accordingly 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\$4.5 million in pollution prevention equipment to clean waste water to meet higher control standards.

#### 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 systems. 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](http://www.holystone.com.tw)

### 5.4.3. Expenditures on environmental protection in the next three years

<u>Item</u>	<u>The Content of Expenditure</u>	Unit: Thousands of NT\$	
		<u>Estimated Funds in Need</u>	
1	Exhaust gas and polluted water disposal equipment	\$	4,820
2	Testing fees for exhaust gas		420
3	Testing fees for polluted water emission		60
4	Disposal fees for polluted water		8,922
5	Disposal fees for waste		10,800
6	Environmental testing fees		434
7	Replacement fees for consumptive materials from exhaust gas		9,400
8	Others		3,000
		\$	<u><u>37,856</u></u>

## 5.5. Labor and Management Relationship

### 5.5.1. Employee Benefit Plans, Continuing Education, Training, Retirement Systems, and Status of their Implementation, and 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 financial aids for wedding, funeral, maternity, hospitalization, festivals, company trips and club activities; encourages 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 sees its employees as valuable assets. We develop an active learning environment for employees to take on important roles in the top teams. From independent to series of course designs, the Company continuously raise employees' overall competitiveness. These includes: developmental courses, channels for diversified learning experiences, knowledge development platform, and industry-university cooperation.
- 5.5.1.4 Retirement plan: In order for employees to work contently without having to worry about future uncertainties, 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 has been no dispute between labor and management.
- 5.5.2. As of Today, the Loss Caused by Disputes between Labor and Management: None.

## 5.6. Major Contracts

March 31, 2012

Contract Classification	Company Name	Contract Duration	Main Contents	Term Limits
Distributorship and Agent Agreement	Hitachi	2012.04.01-2013.03.31	Capacitor	None
Distributorship and Agent Agreement	Skyworks	2011.10.01-2012.09.30	IC	None
Distributorship and Agent Agreement	Microchip	2012.04.01-2013.03.31	IC	None

## 6. Financial Highlights

### 6.1. Condensed Balance Sheet and Condensed Income Statement

#### 6.1.1. Condensed Balance Sheet

Unit: Thousands of NT\$

Item	Year	Financial Information from 2007 to 2011 (Note 1)					As of March 31, 2012 (Note 1)
		2007	2008	2009	2010	2011	
Current assets		6,652,362	6,220,731	6,605,074	7,617,009	7,451,373	7,421,750
Funds and long-term investments		1,337,425	2,154,860	2,853,091	3,040,842	2,710,635	2,745,035
Property, plant and equipment		2,065,992	2,344,605	2,343,154	2,607,536	2,703,902	2,669,560
Other assets		6,855	7,028	6,197	1,938	1,952	2,013
Total assets		10,062,634	10,727,224	11,807,516	13,267,325	12,867,862	12,838,358
Current liabilities	Before distribution	2,525,342	2,270,835	2,560,709	2,955,069	3,646,157	3,494,626
	After distribution	3,400,895	2,719,868	3,422,361	3,691,569	(Note 2)	(Note 2)
Long-term liabilities		-	1,137,250	1,016,833	881,364	73,167	36,583
Other liabilities		6,714	13,012	56,332	56,596	55,436	51,661
Total liabilities	Before distribution	2,532,056	3,421,097	3,633,874	3,893,029	3,774,760	3,582,870
	After distribution	3,407,609	3,870,130	4,495,526	4,629,529	(Note 2)	(Note 2)
Capital stock		2,703,274	2,806,456	2,872,175	3,202,175	3,202,175	3,202,175
Capital surplus		2,747,093	2,741,791	2,763,032	3,652,343	3,626,354	3,625,860
Retained earnings	Before distribution	2,005,372	1,720,779	2,065,228	2,035,809	2,060,819	2,219,996
	After distribution	1,046,282	1,271,746	1,203,576	1,299,309	(Note 2)	(Note 2)
Unrealized gain or loss on financial instruments		83,013	(29,569)	454,949	528,873	202,477	243,376
Cumulative translation adjustments		6,394	73,076	34,041	(24,681)	32,119	(5,077)
Treasury stock		(14,568)	-	-	-	(30,842)	(30,842)
Total stockholders' equity	Before distribution	7,530,578	7,306,127	8,173,642	9,374,296	9,093,102	9,255,488
	After distribution	6,655,023	6,857,094	7,311,990	8,637,796	(Note 2)	(Note 2)

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2012 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	Financial Information from 2007 to 2011 ( Note 1 )					As of March 31, 2012 (Note 1)
	2007	2008	2009	2010	2011	
Net sales	13,165,645	12,777,454	11,105,929	12,680,725	13,146,941	2,821,608
Gross profit	2,158,679	1,439,615	1,435,479	1,481,670	1,280,861	318,540
Operating income	1,495,071	693,376	761,308	713,286	551,604	149,278
Non-operating income and gains	118,497	270,842	320,491	371,945	349,912	68,170
Non-operating expenses and losses	139,210	149,874	46,746	114,540	106,027	36,541
Income before income tax from continuing operations	1,474,358	814,344	1,035,053	970,691	795,489	180,907
Net income from continuing operations	1,189,007	674,497	849,611	832,234	761,510	159,177
Income from discontinued department	-	-	-	-	-	-
Extraordinary gain or loss	-	-	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-	-	-
Net income	1,189,007	674,497	849,611	832,234	761,510	159,177
Earnings per share (NT\$) (Note 2)	4.31	2.36	2.96	2.77	2.38	0.50

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2012 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
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
2011	KPMG	Ching-Sung Wang and Chia-Hsin Chang	A Modified Unqualified Opinion

## 6.2. Financial Analysis

Item (Note 2)		Year	Financial Analysis from 2007 to 2011 (Note 1)					As of March 31, 2012 (Note 1)
		2007	2008	2009	2010	2011		
Capital Structure Analysis (%)	Debt Ratio	25.16	31.89	30.78	29.34	29.33	27.91	
	Long-term Fund to Fixed Assets Ratio	364.50	360.12	392.23	393.31	339.00	348.08	
Liquidity Analysis %	Current ratio	263.42	273.94	257.94	257.76	204.36	212.38	
	Quick Ratio	197.24	200.23	202.03	186.85	157.35	163.34	
	Times Interest Earned	37.52	22.35	66.72	50.14	41.62	34.65	
Operating Performance Analysis	Average Collection Turnover (Times)	3.89	4.02	3.85	4.12	3.82	3.23	
	Days Sales Outstanding	94	91	95	89	95	113	
	Average Inventory Turnover (Times)	6.99	6.86	6.26	6.37	6.26	5.87	
	Average Payment Turnover (Times)	9.53	10.34	9.25	9.04	8.65	8.69	
	Average Inventory Turnover Days	52	53	58	57	58	62	
	Fixed Asset Turnover (Times)	6.75	5.79	4.74	5.12	4.95	4.20	
	Total Asset Turnover (Times)	1.31	1.19	0.94	0.96	1.02	0.88	
Profitability Analysis	Return on Total Assets (%)	12.54	6.66	7.66	6.77	5.97	5.10	
	Return on Equity (%)	16.61	9.09	10.98	9.49	8.25	6.94	
	To Paid-in Capital Ratio (%)	Operating Income	55.31	24.71	26.51	22.11	17.23	4.66
		Income before income tax	54.54	29.02	36.04	30.31	24.84	22.60
	Net Margin (%)	9.03	5.28	7.65	6.56	5.79	5.64	
	Earnings Per Share (NT\$) (2)	4.31	2.36	2.96	2.77	2.38	0.50	
Cash Flow (%)	Cash Flow Ratio (%)	46.81	51.54	52.46	2.49	25.29	(3.58)	
	Cash Flow Adequacy Ratio (%)	91.05	94.56	118.08	69.63	71.99	63.61	
	Cash Flow Reinvestment Ratio (%)	5.38	3.82	8.44	(7.00)	1.79	(1.19)	
Leverage	Operating Leverage	1.01	0.98	0.98	1.00	1.00	1.00	
	Financial Leverage	1.03	1.03	1.02	1.03	1.04	1.04	

Note 1: The financial information of the last five years is reviewed by CPA and the Q1 2012 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 (Note5)

(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 2011 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, 2012

Supervisor: Tang-Ming Wu

Chung-Yi Yang

Ken-Yi Cheng

March 24, 2012

- 6.4. Financial Report of 2011:** Please refer to P.67 to P.109 in this report.
- 6.5. Consolidated Financial Report of 2011:** Please refer to P.110 to P.161 in this report.
- 6.6. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2011 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	2011	2010	Difference	
				Amount	%
Current asset		7,451,373	7,617,009	(165,636)	(2.17)
Long-term investment		2,710,635	3,040,842	(330,207)	(10.86)
Property, plant and equipment		2,703,902	2,607,536	96,366	3.70
Other assets		1,952	1,938	14	0.72
Total assets		12,867,862	13,267,325	(399,463)	(3.01)
Current liabilities		3,646,157	2,955,069	691,088	23.39
Long-term liabilities		73,167	881,364	(808,197)	(91.70)
Other liabilities		55,436	56,596	(1,160)	(2.05)
Total liabilities		3,774,760	3,893,029	(118,269)	(3.04)
Capital stock		3,202,175	3,202,175	-	-
Capital surplus		3,626,354	3,652,343	(25,989)	(0.71)
Retained earnings		2,060,819	2,035,809	25,010	1.23
Unrealized gain or loss on financial instruments		202,477	528,873	(326,396)	(61.72)
Cumulative translation adjustments		32,119	(24,681)	56,800	(230.14)
Unrecognized loss on pension funds		0	(20,223)	20,223	(100.00)
Treasury stock		(30,842)	0	(30,842)	-
Total shareholders' equity		9,093,102	9,374,296	(281,194)	(3.00)
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) :					
An increase of NT\$691,088 thousand in current liabilities: Transfers from bonds payable					
A decrease of NT\$808,197 thousand in long-term liabilities: Transfers from bonds payable and repayments					
A decrease of NT\$326,396 thousand in unrealized gain or loss on financial instruments: Disposal and price fluctuations					
A decrease of NT\$56,800 thousand in cumulative translation adjustments: High fluctuations in foreign currency exchange rate in subsidiaries.					
A decrease of NT\$20,223 thousand in unrecognized loss on pension funds: Changes in personnel under old pension plan.					
An increase of NT\$30,842 thousand in treasury stock: Buyback treasury stocks.					

## 7.2. Operating Results

### 7.2.1. Operating Results Analysis Table

Unit: Thousands of NT\$

Item	Year	2011	2010	Difference	%
Net sales		13,146,941	12,680,725	466,216	3.68
Cost of goods sold		(11,866,080)	(11,199,055)	(667,025)	5.96
Gross profit		1,280,861	1,481,670	(200,809)	(13.55)
Unrealized gross profit from affiliates		186	2,699	(2,513)	(93.11)
Realized gross profit		1,281,047	1,484,369	(203,322)	(13.70)
Operating expenses		(729,443)	(771,083)	41,640	(5.40)
Operating income		551,604	713,286	(161,682)	(22.67)
Non-operating income and gains		349,912	371,945	(22,033)	(5.92)
Non-operating expenses and losses		(106,027)	(114,540)	8,513	(7.43)
Income before income tax from continuing operations		795,489	970,691	(175,202)	(18.05)
Income tax expenses		(33,979)	(138,457)	104,478	(75.46)
Net Income from continuing operations		761,510	832,234	(70,724)	(8.50)

Note 1: Analysis of significant changes between 2010 and 2011 (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000):

- (1) A decrease of NT\$161,682 thousand in operating income: Increase in operating expense.
- (2) A decrease of NT\$104,478 thousand in income tax expense: Tax credits in regions with poor resources.

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
1,644,489	921,939	(863,314)	1,703,114	-	-

1. Analysis of cash flow:

- (1) Net cash provided by operating activities: Result from increase in net income.
- (2) Net cash outflow: Mainly result from net cash provided by investing and financing activities. Net cash outflows are summarized as follows.
  - a. Net cash provided by investing activities: Net cash outflow in investing activities results from the acquisition of machinery and equipment.
  - b. Net cash provided by financing activities: Net cash outflow in financing activities results from buying back bonds, paying loans and distributing cash dividends.

2. Analysis of liquidity:

A decrease of NT\$840,540 thousand in net cash provided by operating activities in 2011 on a year-over-year basis.

Cash flow ratio: 25.29%. Cash adequacy ratio: 71.99%. Cash reinvestment ratio: 1.79%.

3. Cash flow projection for next year:

Beginning cash balance	Expected net cash provided by operating activities	Expected net cash outflow of the year	Expected ending cash balance	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
1,703,114	785,860	(601,875)	1,887,099	-	-

## 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	2013
Land	Corporate bond issuance and cash capital increase implement	12/31/2010	137,250	-	137,351	-	-	-
Machinery and equipment	Corporate bond issuance and cash capital increase implement	03/31/2012	1,358,570	333,921	152,979	401,957	200,000	269,713

### 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 2011

Item	Amount (Thousands of NT\$)	Policy	Root Cause of Profit or Loss	Improvement Action	Investment Plans
Holy Stone Holdings Co., Ltd.	NT\$26,316	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\$50,739	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 and Analysis

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

Holy Stone's interest expense and loss on foreign exchange in 2011 and as of printed date of this Annual Report:

Unit: NT\$ thousands

Item	2011	As of Apr. 30, 2012
Interest Expense	19,586	7,083
Gain (loss) on Foreign Exchange	6,515	(40,427)

Source: Financial statement of 2011 has been reviewed by CPA

Due to low interest rate in the money market, the Company will evaluate its borrowing interest rates frequently and keep close contact with banks to acquire lower interest rate. The interest expenses were only 0.14% and 0.18% respectively of net sales in 2011 and as of Apr. 30, 2012; 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 Assign professional personnel 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; Endorsements, Guarantees, and Derivatives trading, Main Reasons for Gains or Losses and Responsive Actions
- 7.6.2.1 The Company made no high-risk or high-leveraged financial investments during 2011. The Company's Endorsement & Guarantee were NT\$215,300 thousand and NT\$201,800 thousand on December 31, 2011 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, 2011 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 in advance 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. Future investment in R&D is estimated to be NT\$120,000 thousand.
- 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 2011. The Company will continue to acquire relevant information and make essential measures without delay 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 as the basis of management guidance 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 2011 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
- Holy Stone Litzer plant began operations in 2010. This year, the Company will expand its tantalum capacitors production capacity. The expansion will not only raise our competitiveness but also increase 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 risks. Major customers are domestic renowned companies, and the Company diversifies sales to customers as shipments increases. 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 2011 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 2011 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 2010-2011, and as of the date of this Annual Report.

#### 7.6.13. Other Material Risks

During 2011 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.

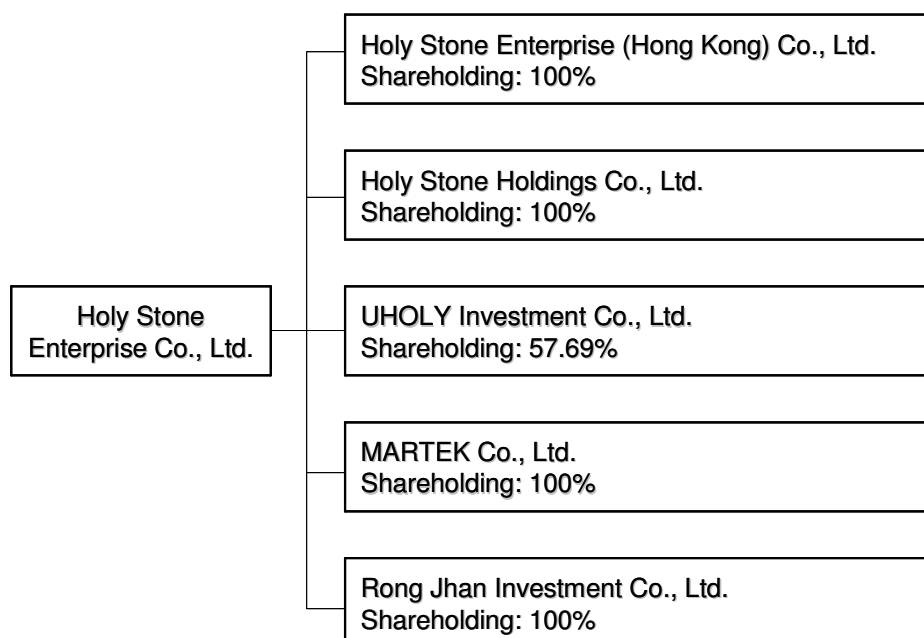
## 8. Special Notes

### 8.1. Affiliates

#### 8.1.1. Affiliates Consolidated Operating Report

##### 8.1.1.1 Holy Stone affiliated companies chart

As of 12/31/2011



##### 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 5, Development Bank of Samoa Building, Beach Road, 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	NT\$ 390,000,000	Investment activities
Martek Co., Ltd.	2008.02	3F-1, No. 329, Lung Jiang Road, Zhong Shan District, Taipei City, Taiwan	NT\$ 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	NT\$ 450,000,000	Investment activities

8.1.1.3 Common shareholders of Holy Stone and its subsidiaries or its affiliates with actual 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 includes manufacturing and marketing of electronic components, investment activities, manufacturing and marketing of small camera and its parts, manufacturing and trading of optical and precise machinery, manufacturing ceramic and ceramic products, precision instrument wholesaling and international trading.

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

Unit: dollars/ shares/ % as of 12/31/2011

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	Jing-Rong Tang	0	0%
	Director	Representative of Holy Stone: Fang-Ming Lo and Shing-Yi Yang	225,000,000/ 22,500,000	57.69%
	Supervisor	Shu-Ying Chang	0	0%
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	450,000,000/ 45,000,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	450,000,000/ 45,000,000	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	631,336	454,019	177,347	1,277,477	9,267	9,729	0.85
Holy Stone Holdings Co., Ltd. (Note 2)	841,951	2,484,475	1,489,092	995,383	2,863,602	17,164	20,781	0.77
UHOLY INVESTMENT CO., LTD. (Note 2)	390,000	879,615	45,616	833,999	493,471	19,040	24,229	0.62
Rong Jhan Investment Co., Ltd. (Note 2)	450,000	981,532	252,059	729,473	773,168	73,524	61,692	1.37
Martek Co., Ltd. (Note 2)	85,000	173,860	27,692	146,168	263,959	50,613	44,767	5.27

Note 1: Foreign exchange rates were NT\$30.275 and NT\$29.391 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 2011 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 2011 and as of the Date of this Annual Report**

None.

**8.4. Other Necessary Supplement:** None.

**8.5. Any Events in 2011 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, 2011 and 2010, 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, 2011 and 2010, the long-term equity investment amounts accounted for under equity method were NT\$1,321,523 thousand and NT\$1,476,536 thousand; the cumulative translation adjustments were (NT\$13,563) thousand and (NT\$20,913) thousand, and the related net investment gains of NT\$133,779 thousand and NT\$126,099 thousand for the year ended December 31, 2011 and 2010. 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, 2011 and 2010, 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 consolidated financial statements of Holy Stone Enterprise Company Limited and subsidiaries as of and for the years ended December 31, 2011 and 2010, and have expressed an unqualified opinion on the consolidated financial statements.

Taipei, Taiwan  
Republic of China

March 16, 2012

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

**Balance Sheets**

**December 31, 2011 and 2010**

**(Expressed in Thousands of New Taiwan Dollars)**

	12.31.2011		12.31.2010			12.31.2011		12.31.2010	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Assets</b>					<b>Liabilities and stockholders' equity</b>				
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (Note 4.1)	\$ 1,703,114	13	1,644,489	12	Short-term loans (Note 4.9 and 6)	\$ 1,186,661	9	895,339	7
Financial assets at fair value through profit or loss -current (Note 4.2 and 4.11)	244,101	2	310,220	2	Financial Liabilities at fair value through profit or loss -current (Note 4.2 and 4.11)	3,980	-	-	-
Notes and accounts receivable, net (Note 4.3)	2,372,162	18	2,292,679	17	Notes and Accounts Payable	1,248,925	10	1,378,720	10
Receivables from related parties (Note 5)	1,166,041	9	1,047,167	8	Payables to related parties (Note 5)	66,678	1	47,818	-
Other financial assets-current (Note 4.5, 5 and 6)	200,334	2	151,650	1	Income tax payable	10,000	-	60,875	-
Inventories, net (Note 4.4)	1,703,965	13	2,089,897	17	Accrued expenses and other current liabilities (Note 5)	415,717	3	425,984	3
Prepaid expenses and other current assets (Note 4.12)	31,656	-	80,907	1	Current portion of corporate bonds (Note 4.11)	567,863	4	-	-
Noncurrent assets held for sale (Note 4.6)	30,000	-	-	-	Current portion of long-term debt (Note 4.10)	146,333	1	146,333	1
<b>Total current assets</b>	<b>7,451,373</b>	<b>57</b>	<b>7,617,009</b>	<b>58</b>	<b>Total current liabilities</b>	<b>3,646,157</b>	<b>28</b>	<b>2,955,069</b>	<b>21</b>
<b>Funds and investments:</b>					<b>Long-term liabilities</b>				
Long-term equity investments under equity method (Note 4.5)	2,312,826	18	2,380,440	18	Corporate bonds payable (Note 4.11)	-	-	661,864	5
Available-for-sale financial assets-noncurrent (Note 4.2)	97,809	1	360,402	3	Long-term loans payable - bank (Note 4.10)	73,167	1	219,500	2
Financial assets carried at cost-noncurrent (Note 4.2)	300,000	2	300,000	2	<b>Total long-term liabilities</b>	<b>73,167</b>	<b>1</b>	<b>881,364</b>	<b>7</b>
<b>Total funds and investments</b>	<b>2,710,635</b>	<b>21</b>	<b>3,040,842</b>	<b>23</b>	<b>Other liabilities:</b>				
<b>Property, plant and equipment (Note 4.7 and 6):</b>					Accrued pension liabilities (Note 4.12)	7,810	-	26,732	-
Land	597,530	5	597,530	5	Deferred income tax liabilities-noncurrent (Note 4.13)	47,358	-	29,597	-
Buildings	1,139,806	9	1,116,981	8	Other liabilities	268	-	267	-
Machinery and equipment	1,611,809	13	1,377,575	10	<b>Total other liabilities</b>	<b>55,436</b>	<b>-</b>	<b>56,596</b>	<b>-</b>
Leasing assets	47,568	-	47,568	-	<b>Total liabilities</b>	<b>3,774,760</b>	<b>29</b>	<b>3,893,029</b>	<b>28</b>
Other equipment	216,941	2	187,933	1	<b>Stockholders' equity (Note 4.5, 4.11 and 4.14):</b>				
Subtotal	3,613,654	29	3,327,587	24	Common stock	3,202,175	25	3,202,175	24
Less: Accumulated depreciation	(1,135,769)	(9)	(947,200)	(7)	Capital surplus	3,626,354	28	3,652,343	29
Construction in progress and prepayments for equipment	226,017	2	227,149	2	Retained earnings:				
<b>Net property, plant and equipment</b>	<b>2,703,902</b>	<b>22</b>	<b>2,607,536</b>	<b>19</b>	Legal reserve	860,061	7	776,837	6
<b>Other assets (Note 4.8)</b>	<b>1,952</b>	<b>-</b>	<b>1,938</b>	<b>-</b>	Unappropriated earnings	1,200,758	9	1,258,972	9
						2,060,819	16	2,035,809	15
					Others:				
					Cumulative translation adjustments	32,119	-	(24,681)	-
					Net loss unrecognized as pension cost	-	-	(20,223)	-
					Unrealized gain or loss on financial instruments	202,477	2	528,873	4
					Treasury stock	(30,842)	-	-	-
						203,754	2	483,969	4
					<b>Total stockholders' equity</b>	<b>9,093,102</b>	<b>71</b>	<b>9,374,296</b>	<b>72</b>
					<b>Commitments and contingencies (Note 5 and 7)</b>				
<b>Total assets</b>	<b>\$ 12,867,862</b>	<b>100</b>	<b>13,267,325</b>	<b>100</b>	<b>Total liabilities and stockholders' equity</b>	<b>\$ 12,867,862</b>	<b>100</b>	<b>13,267,325</b>	<b>100</b>

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, 2011 and 2010**

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

	2011		2010	
	Amount	%	Amount	%
<b>Gross sales</b>	\$ 13,264,175	101	12,769,268	101
Less: Sales returns	(117,234)	(1)	(88,543)	(1)
<b>Net sales (Note 5)</b>	13,146,941	100	12,680,725	100
<b>Cost of goods sold (Note 4.4 and 5)</b>	(11,866,080)	(90)	(11,199,055)	(88)
<b>Gross profit</b>	1,280,861	10	1,481,670	12
Realized gross profit from affiliates (Note 5)	186	-	2,699	-
<b>Realized gross profit</b>	1,281,047	10	1,484,369	12
<b>Operating expenses:</b>				
Selling and administrative (Note 5)	(626,096)	(5)	(653,465)	(5)
Research and development	(103,347)	-	(117,618)	(1)
	(729,443)	(5)	(771,083)	(6)
<b>Operating income</b>	551,604	5	713,286	6
<b>Non-operating income and gains:</b>				
Interest income (Note 5)	9,295	-	10,396	-
Investment income recognized under equity method (Note 4.5)	160,095	1	193,853	2
Dividend income	12,020	-	14,162	-
Gain on disposal of investments, net	152,971	1	102,783	1
Gain on foreign exchange, net	6,515	-	-	-
Valuation gain on financial assets (Note 4.2, 4.11)	-	-	39,806	-
Others (Note 5)	9,016	-	10,945	-
	349,912	2	371,945	3
<b>Non-operating expenses and losses:</b>				
Interest expenses (Note 4.11)	(19,586)	-	(19,753)	-
Valuation loss on financial assets	(2,970)	-	-	-
Loss on foreign exchange, net (Note 4.6)	-	-	(94,416)	(1)
Impairment loss (Note 4.2 and 4.11)	(8,928)	-	-	-
Valuation loss on financial liabilities	(71,063)	(1)	-	-
Others	(3,480)	-	(371)	-
	(106,027)	(1)	(114,540)	(1)
<b>Income before income tax</b>	795,489	6	970,691	8
<b>Income tax expense (Notes 4.13)</b>	(33,979)	-	(138,457)	(1)
<b>Net income</b>	<u>\$ 761,510</u>	<u>6</u>	<u>832,234</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>
<b>Earnings per share (Notes 4.15) (NT Dollars)</b>				
<b>Basic earnings per share</b>	<u>\$ 2.49</u>	<u>2.38</u>	<u>3.23</u>	<u>2.77</u>
<b>Diluted earnings per share</b>	<u>\$ 2.35</u>	<u>2.25</u>	<u>3.09</u>	<u>2.65</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, 2011 and 2010**  
**(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	Treasury Stock	
<b>Balance, January 1, 2010</b>	\$ 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
The equity component of the convertible bond-stock option	-	113,267	-	-	-	-	-	-	113,267
Net income	-	-	-	832,234	-	-	-	-	832,234
Appropriations of prior year's earnings (Note 4.14) (Remark 1):									
Legal capital reserve	-	-	84,961	(84,961)	-	-	-	-	-
Common stock cash dividends	-	-	-	(861,653)	-	-	-	-	(861,653)
Change in unrealized gains (losses) on available-for-sale financial assets	-	-	-	-	-	-	32,709	-	32,709
Change of net loss not recognized as pension cost	-	-	-	-	-	(4,440)	-	-	(4,440)
Changes in foreign exchange gain (loss) due to the translation of foreign currency financial statements	-	-	-	-	(58,722)	-	-	-	(58,722)
Changes in equities of long-term investments	-	8,790	-	-	-	-	41,215	-	50,005
Stock-based compensation	-	24,750	-	-	-	-	-	-	24,750
<b>Balance, December 31, 2010</b>	<b>3,202,175</b>	<b>3,652,343</b>	<b>776,837</b>	<b>1,258,972</b>	<b>(24,681)</b>	<b>(20,223)</b>	<b>528,873</b>	<b>-</b>	<b>9,374,296</b>
Derecognized convertible bonds	-	(6,572)	-	-	-	-	-	-	(6,572)
Treasury stock repurchase	-	-	-	-	-	-	-	(30,842)	(30,842)
Net income	-	-	-	761,510	-	-	-	-	761,510
Appropriations of prior year's earnings (Note 4.14) (Remark 2):									
Legal capital reserve	-	-	83,224	(83,224)	-	-	-	-	-
Common stock cash dividends	-	-	-	(736,500)	-	-	-	-	(736,500)
Change in unrealized gains (losses) on available-for-sale financial assets	-	-	-	-	-	-	(181,268)	-	(181,268)
Change of net loss not recognized as pension cost	-	-	-	-	-	20,223	-	-	20,223
Changes in foreign exchange gain (loss) due to the translation of foreign currency financial statements	-	-	-	-	56,800	-	-	-	56,800
Changes in equities of long-term investments	-	(19,417)	-	-	-	-	(145,128)	-	(164,545)
<b>Balance, December 31, 2011</b>	<b>\$ 3,202,175</b>	<b>3,626,354</b>	<b>860,061</b>	<b>1,200,758</b>	<b>32,119</b>	<b>-</b>	<b>202,477</b>	<b>(30,842)</b>	<b>9,093,102</b>

Remark 1: Remuneration to directors and supervisors (NT\$22,313 thousand) and employee bonus (NT\$119,005 thousand) were deducted from income statement.

Remark 2: Remuneration to directors and supervisors (NT\$21,931 thousand) and employee bonus (NT\$116,964 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, 2011 and 2010**  
**(Expressed in Thousands of New Taiwan Dollars)**

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	\$ 761,510	832,234
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>		
Depreciation	225,196	194,971
Allowance for doubtful accounts	-	7,240
Stock-based compensation	-	24,750
Amortization- discount on corporate bonds payable	7,948	4,445
Gain on buyback of bonds payable	(2,858)	-
Inventory valuation loss, retirement loss, and obsolescence loss	15,122	13,864
Investment gain accounted for using equity method	(160,095)	(193,853)
Cash dividends from investee under equity method	145,000	-
Loss on disposal of property, plant and equipment	2,630	3
Loss (gain) on disposal of long-term investments under equity method	(2,690)	(5,831)
Gain disposal of investments, net	(150,281)	(96,952)
Impairment loss on non-financial assets	8,928	-
Realized gross profit	(186)	(2,699)
Deferred income tax expense	22,143	11,504
<b>Changes in operating assets and liabilities:</b>		
Financial assets at fair value through profit or loss	66,119	228,434
Notes and accounts receivable	(79,483)	(178,048)
Receivables from related parties	(118,874)	(349,553)
Other receivables from related parties	-	2,499
Inventories	370,810	(680,020)
Prepaid expenses and other current assets	33,236	(4,884)
Other financial assets - current	(56,494)	(62,407)
Financial liabilities at fair value through profit or loss	4,343	-
Notes and accounts payable	(129,796)	344,867
Payables from related parties	18,861	29,272
Income tax payable	(50,875)	(42,039)
Accrued expenses and other current liabilities	(9,577)	2,776
Accrued pension liabilities	1,302	826
<b>Net cash provided from operating activities</b>	<u>921,939</u>	<u>81,399</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of available-for-sale financial assets	218,203	111,501
Proceeds from return of capital by investees	10,500	-
Additions to property, plant and equipment	(366,037)	(428,186)
Proceeds from sale of property, plant and equipment	2,413	16
Decrease in other receivables – related parties	-	116,479
Decrease (increase) in other assets	(14)	4,259
<b>Net cash used in investing activities</b>	<u>(134,935)</u>	<u>(195,931)</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	291,322	10,081
Issuance of corporate bond	-	700,000
Redemption of bonds payable	(106,026)	-
Repayment of long-term loans	(146,333)	(776,417)
Decrease in other liabilities	-	(2,067)
Cash dividends	(736,500)	(861,653)
Issuance of common stock for cash	-	1,072,504
Cost of buyback treasury stock	(30,842)	-
<b>Net cash provided from (used in) financing activities</b>	<u>(728,379)</u>	<u>142,448</u>
<b>Net increase in cash and cash in banks</b>	58,625	27,916
<b>Cash and cash in banks at beginning of period</b>	<u>1,644,489</u>	<u>1,616,573</u>
<b>Cash and cash in banks at end of period</b>	<u>\$ 1,703,114</u>	<u>1,644,489</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid, excluding capitalization of interest	\$ <u>11,660</u>	<u>15,188</u>
Income tax paid	\$ <u>124,166</u>	<u>168,992</u>
<b>Supplemental information on non-cash investing and financing activities:</b>		
Current portion of long-term debt	\$ <u>714,196</u>	<u>146,333</u>
Unrealized valuation loss on financial instruments – available-for-sale	\$ <u>181,268</u>	<u>(32,709)</u>
Changes in unrealized loss (gain) on financial instruments from long-term equity investments	\$ <u>145,128</u>	<u>(41,215)</u>
Changes in capital reserve from long-term equity investments	\$ <u>19,417</u>	<u>(8,790)</u>
<b>Cash used in acquisition of property, plant and equipment</b>		
Acquisition of property, plant and equipment	\$ (365,533)	(459,372)
Increase (decrease) in payables on equipment	(504)	31,186
Payment in cash	\$ <u>(366,037)</u>	<u>(428,186)</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, 2011 AND 2010**

(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, in accordance with 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, 2011 and 2010, the Company had 815 and 854 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:

**2.1 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.

**2.2 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 on the date of the balance sheet, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in current 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 current 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.

**2.3 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 12 months from the date on the balance sheet; others are all noncurrent assets.

Current liabilities are obligations that will be settled within 12 months from the date on the balance sheet or obligations expected to be settled by the normal operating process of enterprise; others are all noncurrent liabilities.

## **English Translations of Notes Originally Issued in Chinese**

### **Holy Stone Enterprise Company Limited**

#### **NOTES TO FINANCIAL STATEMENTS (Continued)**

##### **2.4 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.

##### **2.5 Financial Assets at Fair Value through Profit or Loss**

Financial instruments for the trading purposes of short-term sales and repurchase, and derivatives held by Holy Stone should be classified in this category except those assigned and which are valid hedging instruments. Recognized at fair value, and any profit or loss should be recognized on the income statement. Evaluation after acquisition is based on fair value, and changes are recorded as profit or loss. Transaction date accounting is applied to purchase or sale of financial assets.

##### **2.6 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. During derecognition, accumulated gain or loss is recorded. Transaction date accounting is applied to purchase or sale of financial assets.

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 current earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

##### **2.7 Financial Assets Carried at Cost**

If there is no active market for an equity instrument and 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.

##### **2.8 Notes and Accounts receivables, Other Receivables**

Notes and account receivables come from selling goods and offering labor service. Other receivables come from non-operating notes and accounts receivables.

For financial assets, the Company first assesses if the assets valued at amortized costs, with objective evidence, are impaired, and also whether the assets impaired are significant and independent, or insignificant but with common occurrences. The assets that underwent individual assess and whose impairments are being or have already been recorded do not need to undergo portfolio impairment assessment.

The impaired amount is the difference between the financial asset's book value and the future expected cash flows discounted to the present by the original effective interest rate. The book value of financial assets can be lowered by the amount in the allowance account, and impairment losses are recorded in current earnings. In determining impairment amount, the future expected cash flows should include recoverable amounts from collaterals and related insurances.

If, subsequently, impairment amount decreases with significant association with events that occurred after recognizing the impairment, reversals must not cause the financial asset's book value to exceed its

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

amortized cost when no impairment was recognized. Reversals are recorded in current earnings.

**2.9 Inventories**

Cost of merchandise amounts to expenditure that is essential to determining 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 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 occurred.

**2.10 Long-Term Investments Accounted for Using Equity Method**

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

The difference, if any, between the cost of investment and the fair value of identifiable net assets, such as depreciated assets, 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 the day of disposal. 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.

**2.11 Noncurrent Asset Held for Sale**

Noncurrent asset held for sale or portfolio held for disposal means that under the current circumstances, the Company can immediately sale under general conditions and business practices. And the noncurrent asset

## **English Translations of Notes Originally Issued in Chinese**

### **Holy Stone Enterprise Company Limited**

#### **NOTES TO FINANCIAL STATEMENTS (Continued)**

or portfolio is highly likely that it can be sold or disposed within one year. Classified as noncurrent asset held for sale or portfolio held for disposal, the asset is to be carried at the lower of book value or net fair value. Records for further depreciation, allowance, and amortization are stopped, and listed individually on the balance sheet. Related interests and other expenses for portfolio held for disposal are recognized continually.

Impairment loss is recognized on the income statement when noncurrent asset held for sale or portfolio held for disposal has a fair value lower than its book value. If the net fair value subsequently increases, gain is to be recognized on the income statement. However, reversal amount cannot exceed the accumulated impairment amount and the amount stated according to SFAS Article No. 35 "Accounting for Impairment of Assets."

#### **2.12 Property, Plant and Equipment and Information on Depreciation**

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 related asset. Significant renewals and improvements are treated as capital expenditures and are depreciated accordingly; maintenance and repair costs are recognized as current expenses. Property, plant and equipment not in use are classified as idle assets, including its 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 costs associated with dismantling and restoring the leased premises 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.

Service lives of major property, plant and equipment are as follows:

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

Gain or loss from disposal of property, plant and equipment is recognized as non-operating income or expense.

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.

#### **2.13 Convertible Bond**

Convertible bonds issued by the Company create financial liability and give the holders' right to convert at the same time. According to SFAS Article No.36, "Financial Instruments: Disclosure and Presentation" stated that convertible bonds are hybrid financial instruments.

If hybrid financial instruments issued by the Company create financial liability and give holders' rights to convert at the same time, and in addition, holders are authorized to convert a said amount of common stock with a fixed sum or with other financial assets, the financial instrument should be valued at fair value during acquisition.

Calculation for the fair value of the liability component of hybrid financial instrument is similar to

## **English Translations of Notes Originally Issued in Chinese**

### **Holy Stone Enterprise Company Limited**

#### **NOTES TO FINANCIAL STATEMENTS (Continued)**

calculating liability in which equity component is irrelevant. The difference between the total value of hybrid financial instrument and the liability component is recognized as the equity component. Transaction cost at issuance is to be amortized as liability and equity component by the percentage of acquired value. After acquisition, unless specified to carry at fair value and to recognize changes as profit or loss, interests for the liability component of hybrid financial instrument is to be calculated by the effective interest method, and should be proportionally to the contract period as current profit or loss. The changes in fair value of equity component within a hybrid financial instrument are not recognized.

##### **2.14 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 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.

##### **2.15 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.

##### **2.16 Revenue Recognition**

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

##### **2.17 Employees’ Bonus and Directors’ and Supervisors’ Remuneration**

Based on the interpretation issued by the Accounting Research and Development Foundation of the

## **English Translations of Notes Originally Issued in Chinese**

### **Holy Stone Enterprise Company Limited**

#### **NOTES TO FINANCIAL STATEMENTS (Continued)**

R.O.C., the Company was requested to record the drafted bonus paid to directors, supervisors and employees as an item under operating expense in semi-annual and annual financial reports. Any difference, between actual adopted amount determined in the shareholders' meeting and the drafted one on financial statements, is recognized as an appropriation of earnings.

##### **2.18 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.

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.

##### **2.19 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.

##### **2.20 Operating Divisions**

Operating divisions are the constituent units of the Company. They take on operating activities that could foster revenue and also incur expenses (including revenue and expenses from inter-division trading). Operating results of each division is regularly monitored by the Company to determine resource distribution for that division and to evaluate its performance from their individual financial reports. The Company has disclosed division information in the consolidated financial report, therefore, financial report for the parent company will not include information on the divisions.

### **3. Accounting Change**

3.1 Effective January 1, 2011, the Company adopted the newly revised SFAS No. 34, "Accounting for financial instruments." According to the revision, the existing loans and receivables shall apply to this revision regarding the announcement on loans and receivables, subsequent evaluations, and impairment. 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, 2011.

3.2 Effective January 1, 2011, the Company adopted the SFAS No. 41, "Disclosing operating divisions." According to this provision, companies shall disclose information that will help report readers evaluate the company's

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

operating activities, the nature of the economic environment and its financial impact. The Company uses information provided internally to the Operating Decision Maker to determine the disclosed information for the operating divisions. The Company has disclosed information on the division in the consolidated financial report; therefore, this information will not be included in the financial report for the parent company. This provision (No.41) also replaced SFAS No.20 "Disclosure of financial information by division." Such changes in accounting principle will not have an effect on the Company's profit.

**4. Accounts Statement**

4.1 Cash and Cash Equivalents

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Cash on hand	\$ 1,405	\$ 1,202
Current deposit	1,354,201	1,504,765
Checking account	508	8,522
Deposit account	347,000	130,000
	<u><b>\$ 1,703,114</b></u>	<u><b>1,644,489</b></u>

4.2 Financial Instrument

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

	<u>12.31.2011</u>	<u>12.31.2010</u>
Foreign stocks	\$ 12,234	19,292
Bonds	224,712	223,175
Open-ended funds	7,155	10,460
Foreign exchange swap contracts	-	30,315
Redeem (buy) and put—convertible bonds payable	-	26,978
Total	<u><b>\$ 244,101</b></u>	<u><b>310,220</b></u>

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

	<u>12.31.2011</u>	<u>12.31.2010</u>
Foreign exchange swap contracts	107	-
Redeem (buy) and put—convertible bonds payable	3,873	-
Total	<u><b>\$ 3,980</b></u>	<u><b>-</b></u>

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Financial assets and liabilities recognized at fair value through profit or loss as of December 31, 2011 and 2010 was NT(\$42,818) thousand and NT\$83,514 thousand.

Derivatives are hedging instruments to avoid exchange risks and interest risks from operating, financing, and investing activities. As of December 31, 2011 and 2010, details of derivatives not applied to hedging accounting are as follows:

Foreign exchange swap contracts

		<b>12.31.2011</b>			<b>12.31.2010</b>
	<b>Principal(USD)</b>	<b>Term</b>		<b>Principal(USD)</b>	<b>Term</b>
\$	2,900,000	2011.12.29~2012.01.17		8,740,000	2010.12.21~2011.01.04
	9,400,000	2011.12.29~2012.01.17		2,500,000	2010.12.21~2011.01.04
	3,200,000	2011.12.29~2012.01.17		5,400,000	2010.12.21~2011.01.04
	5,340,000	2011.12.29~2012.01.17		1,800,000	2010.12.21~2011.01.04
	-	2011.12.29~2012.01.17		2,900,000	2010.12.21~2011.01.04
	-	2011.12.29~2012.01.17		3,200,000	2010.12.21~2011.01.04
	-			<u>2,200,000</u>	2010.12.21~2011.01.04
	<b><u>\$ 20,840,000</u></b>			<b><u>26,740,000</u></b>	

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.

4.2.3 Available-for-sale financial assets - noncurrent

	<u>12.31.2011</u>	<u>12.31.2010</u>
GSI TECHNOLOGY INC. (GSIT)	\$ 82,425	193,657
eGalax_eMPIA Technology Inc. (EETI)	15,384	120,636
INPAQ Technology Co., Ltd. (INPAQ)	-	34,407
Total	<b><u>\$ 97,809</u></b>	<b><u>360,402</u></b>

4.2.4 Financial assets carried at cost - noncurrent

	<u>12.31.2011</u>	<u>12.31.2010</u>
Preferred stock – China Trust Commercial Bank	<b><u>\$ 300,000</u></b>	<b><u>300,000</u></b>

4.3 Notes and Accounts Receivable

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Notes receivable	\$ 88,472	148,592
Accounts receivable	2,336,968	2,203,076
Allowance for collectible accounts	<u>(53,278)</u>	<u>(53,989)</u>
	<b><u>\$ 2,372,162</u></b>	<b><u>2,292,679</u></b>

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

As of December 31, 2011 and 2010, Notes and accounts receivable of the Company were not discounted or offered as collateral

Current notes and accounts receivable with short expiry period of the Company were not discounted, and the carrying amounts were assumed to approximate fair value.

Allowance for notes and accounts receivables are as follows:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Beginning balance	\$ 53,989	46,749
Bad debt for current period	-	7,240
Write-offs for current period	<u>(711)</u>	<u>-</u>
Ending balance	<u><b>\$ 53,278</b></u>	<u><b>53,989</b></u>

4.4 Inventories

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Merchandise	\$ 1,241,638	1,417,855
Less: Allowance	<u>(79,020)</u>	<u>(87,070)</u>
Subtotal	<u>1,162,618</u>	<u>1,330,785</u>
Finished goods	276,079	345,877
Less: Allowance	<u>(25,210)</u>	<u>(22,715)</u>
Subtotal	<u>250,869</u>	<u>323,162</u>
Semi-finished goods	113,890	138,531
Less: Allowance	<u>(18,668)</u>	<u>(11,208)</u>
Subtotal	<u>95,222</u>	<u>127,323</u>
Work in process	70,971	102,441
Less: Allowance	<u>(2,247)</u>	<u>(622)</u>
Subtotal	<u>68,724</u>	<u>101,819</u>
Raw materials	124,461	204,132
Less: Allowance	<u>(2,731)</u>	<u>(1,551)</u>
Subtotal	<u>121,730</u>	<u>202,581</u>
Supplies	4,896	4,264
Less: Allowance	<u>(94)</u>	<u>(37)</u>
Subtotal	<u>4,802</u>	<u>4,227</u>
Total	<u><b>\$ 1,703,965</b></u>	<u><b>2,089,897</b></u>

For the years ended December 31, 2011 and 2010, the Company recognized related losses on inventories of NT\$14,360 thousand and NT\$9,958 thousand, respectively, which include changes on inventories of NT\$4,767 thousand in 2011 from the write-up of net realizable value and losses on inventories charged. For 2010, there was a decrease in operating expense of NT\$15,208 thousand from the offset of previous inventory net realizable value that was lower than cost.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

4.5 Long-term Equity Investments

Details:

<u>Investee Company</u>	<u>% of Ownership</u>	<u>12.31.2011</u>		<u>2011 Gain (Loss) on Investments</u>
		<u>Investment Cost</u>	<u>Carrying Amount</u>	
Valuation at equity:				
Holy Stone Enterprise (Hong Kong) Co., Ltd.	100.00%	\$ 49,046	177,347	9,729
Holy Stone Holdings Co., Ltd.	100.00%	841,951	991,303	26,316
UHOLY INVESTMENTS CO., LTD	57.69%	225,000	422,039	28,544
Martek Co., Ltd.	100.00%	20,000	146,169	44,767
RONG JHAN INVESTMENTS CO., LTD.	100.00%	<u>340,000</u>	<u>575,968</u>	<u>50,739</u>
		<u>\$ 1,475,997</u>	<u>2,312,826</u>	<u>160,095</u>

<u>Investee Company</u>	<u>% of Ownership</u>	<u>12.31.2010</u>		<u>2010 Gain (Loss) on Investments</u>
		<u>Investment Cost</u>	<u>Carrying Amount</u>	
Valuation at equity:				
Holy Stone Enterprise (Hong Kong) Co., Ltd.	100.00%	\$ 49,046	160,997	15,973
Holy Stone Holdings Co., Ltd.	100.00%	841,951	903,904	67,754
UHOLY INVESTMENTS CO., LTD	57.69%	225,000	631,482	(2,468)
Taiwan Mahk Opt Co., Ltd.	- %	-	-	(2,351)
Martek Co., Ltd.	100.00%	20,000	156,402	61,263
RONG JHAN INVESTMENTS CO., LTD.	100.00%	<u>340,000</u>	<u>527,655</u>	<u>53,682</u>
		<u>\$ 1,475,997</u>	<u>2,380,440</u>	<u>193,853</u>

4.5.1 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 has been recognized under "Other financial assets-current." The Company has completed the liquidation 2011, returning capital of \$10,500 thousand.

4.5.2 For the years ended December 31, 2011 and 2010, equity in earnings/losses of equity method investees was a net gain of (NT\$19,417) thousand and NT\$8,790 thousand, respectively.

4.5.3 For the years ended December 31, 2011 and 2010, long-term investments accounted by equity method have not yet provided pledged collaterals.

4.6 Noncurrent Asset Held for Sale

Details:

	<u>12.31.2011</u>
Machinery and equipment	\$ 66,656
Less: Accumulated depreciation	(27,728)
Accumulated impairment	(8,928)
	<u>\$ 30,000</u>

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The Company has made the decision in December 2011 to sell part of its machinery and equipment, expected completion within one year. The above assets were classified as noncurrent asset held for sale in December 31, 2011. The net fair value below book value, NT\$8,928 thousand, was included under “impairment loss” in 2011.

4.7 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, 2011 and 2010 are summarized as follows:

	<u>12.31.2011</u>	<u>12.31.2010</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>(4,871)</u>	<u>(4,503)</u>
	<b><u>\$ 42,697</u></b>	<b><u>43,065</u></b>

4.8 Idle Assets

Details on idle assets of the Company as of December 31, 2011 and 2010 are summarized as follows:

	<u>12.31.2011</u>	<u>12.31.2010</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	<b><u>\$ -</u></b>	<b><u>-</u></b>

4.9 Short-term Loans

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Secured loans	\$ -	169,109
Unsecured loans	<u>1,186,661</u>	<u>726,230</u>
Total	<b><u>\$ 1,186,661</u></b>	<b><u>895,339</u></b>
Interest rate	<b><u>0.82%~1.40%</u></b>	<b><u>0.583%~1.471%</u></b>

As of December 31, 2011 and 2010, the Company’s credit lines on short-term loans which have not been used from financial institutions were NT\$2,040,385 thousand and NT\$2,267,166 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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4.10 Long-term Liabilities

Details:

<u>Creditor</u>	<u>Line of Credit and Key Terms</u>	<u>12.31.2011</u>	<u>12.31.2010</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.	\$ 219,500	365,833
Less: Current portion		<u>(146,333)</u>	<u>(146,333)</u>
		<u><b>\$ 73,167</b></u>	<u><b>219,500</b></u>

4.10.1 Each long-term loan of the Company is unsecured loan.

4.10.2 The aforementioned interests are paid in floating interest rate, with an approximation of 1.3002 percent to 1.3118 percent and 0.920 percent to 1.520 percent in 2011 and 2010, respectively.

4.10.3 As of December 31, 2011 and 2010, there were no long-term loans not be used by the Company.

4.10.4 As of December 31, 2011, the loan balance should be paid as follows:

<u>Period</u>	<u>Amount</u>
01.01.2012~12.31.2012	\$ 146,333
01.01.2013~06.30.2013	<u>73,167</u>
	<u><b>\$ 219,500</b></u>

4.11 Bonds Payable

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Total proceeds from issuing convertible bonds	\$ 593,200	700,000
Discount in bonds payable	(25,337)	(38,136)
Less: Put option performed within the year	<u>(567,863)</u>	-
Balance of bonds payable at the end of period	<u><b>\$ -</b></u>	<u><b>661,864</b></u>
Derivative financial instrument—redemption (buy) and put options (financial assets at fair value through gain or loss – current)	<u><b>\$ (3,873)</b></u>	<u><b>26,978</b></u>
Equity components (included in capital reserve-options)	<u><b>\$ 95,986</b></u>	<u><b>113,267</b></u>
	<u>2011</u>	<u>2010</u>
Derivative financial instrument—redemption (buy) and put options (Change in fair value recorded as valuation loss)	<u><b>\$ 31,215</b></u>	<u>43,708</u>
Interest Expense	<u><b>\$ 7,948</b></u>	<u>4,445</u>

Third issuance of domestic unsecured convertible bond has an interest rate of 0% and convertible price of NT\$43.50 during issuance, 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 those who have not exercised the conversion, the Company will repay the principal price in cash in one setting. For August 16, 2011, the convertible price is NT\$37.12.

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4.12 Pension Plan

4.12.1 Defined benefit pension plan adoption:

i. Reconciliation of funded status of the plan and accrued pension cost at December 31, 2011 and 2010.

	<u>12.31.2011</u>	<u>12.31.2010</u>
Benefit obligation:		
Vested benefit obligation	\$ (14,917)	(14,390)
Nonvested benefit obligation	(55,308)	(92,567)
Accumulated benefit obligation	(70,225)	(106,957)
Additional benefits based on future salaries	(8,486)	(17,132)
Projected benefit obligation	(78,711)	(124,089)
Fair value of plan assets	84,894	80,225
Funded status	6,183	(43,864)
Unrecognized loss (gain) pension plan	(13,993)	37,355
Additional accrued pension liabilities	-	(20,223)
Accrued pension cost	<u>\$ (7,810)</u>	<u>(26,732)</u>

ii. Components of net periodic pension cost are as follows:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 2,083	2,193
Interest cost	2,792	2,568
Actual return on pension plan assets	(1,805)	(1,697)
Amortized pension	1,919	1,558
Net periodic pension cost	<u>\$ 4,992</u>	<u>4,622</u>

iii. Actuarial assumptions are as follows:

	<u>2011</u>	<u>2010</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%

4.12.2 Defined contribution pension plan adoption:

For the year ended December 31, 2011 and 2010, pension cost was NT\$23,431 thousand and NT\$23,117 thousand, respectively.

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

4.13 Income Tax

4.13.1 In accordance to the "Income Tax Act," the Company was subjected to an income tax rate of 17%.

4.13.2 The components of income tax for the years ended December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Current income tax expense	\$ 11,836	126,953
Deferred income tax expense	<u>22,143</u>	<u>11,504</u>
Income tax expense	<u>\$ 33,979</u>	<u>138,457</u>

The components of deferred income tax expense (benefit) for the years ended December 31, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Unrealized gain or loss on foreign exchange, net	\$ 16,149	(6,456)
Unrealized loss on investment, net	6,128	14,234
Loss for market price decline and obsolete and slow-moving inventories	(810)	2,585
Effect of change in income tax rate on deferred income tax	-	1,810
Others	<u>676</u>	<u>(669)</u>
	<u>\$ 22,143</u>	<u>11,504</u>

4.13.3 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, 2011 and 2010, as follows:

	<u>2011</u>	<u>2010</u>
Estimated income tax expense calculated based on financial income before tax	\$ 135,233	165,017
Income from securities selling	(16,747)	(2,657)
Effect of change in income tax rate	-	1,810
Tax-exempt income and investment tax credit	(81,208)	(14,610)
Others	<u>(3,299)</u>	<u>(11,103)</u>
	<u>\$ 33,979</u>	<u>138,457</u>

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4.13.4 The components of deferred income tax assets (liabilities) as of December 31, 2011 and 2010 are as follows:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Current deferred income tax assets:		
Losses on inventory valuation and obsolescence	\$ 21,755	20,944
Allowance for uncollectible accounts-over limit	3,411	4,616
Unrealized loss on foreign exchange, net	-	8,859
Others	<u>1,328</u>	<u>799</u>
Net current deferred income tax assets	<u>26,494</u>	<u>35,218</u>
Current deferred income tax liabilities:		
Unrealized gain on foreign exchange, net	<u>(7,291)</u>	-
Net current deferred income tax assets	<u><b>\$ 19,203</b></u>	<u><b>35,218</b></u>
Noncurrent deferred income tax assets:		
Impairment and others	\$ 11,901	10,383
Cumulative translative adjustments	-	5,055
Valuation allowance	<u>(11,901)</u>	<u>(10,383)</u>
Net noncurrent deferred income tax assets	<u>-</u>	<u>5,055</u>
Noncurrent deferred income tax liabilities:		
Long-term investment income under equity method	\$ (40,779)	(34,652)
Cumulative translation adjustments	<u>(6,579)</u>	-
Noncurrent deferred income tax liabilities	<u>(47,358)</u>	<u>(34,652)</u>
Net noncurrent deferred income tax liabilities	<u><b>\$ (47,358)</b></u>	<u><b>(29,597)</b></u>

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

4.13.5 Some of the Company’s products comply with the incentives stated as “From July 1, 2008 to December 31, 2009, companies within manufacturing and related technology services industries with new investments can receive 5-year tax exempt benefits.” Therefore, the Company has a 5-year tax benefit with the exemption period ending at the end of 2015.

4.13.6 In accordance to provisions to promote industrial upgrades and “Tax credits applicable to companies investing in rural areas with poor resources or slow development,” the Company received the benefit to offset income tax payable in profit-seeking enterprise. The amount estimated for the tax benefits according to the investment amount in 2011 totaled NT\$68,873 thousand.

4.13.7 According to the Statute for Industrial Innovation, investment allowance of R&D expense can be applied to income tax for profit-seeking enterprise, with the allowance not exceeding 30% of the total operating income tax. For the year 2011, the investment allowance is NT\$11,949 thousand.

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4.13.8 The tax authorities have examined income tax returns of the Company through 2008.

4.13.9 The integrated income tax system:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Unappropriated earnings after 1997	<u>\$ 1,200,758</u>	<u>1,258,972</u>
Imputation credit account (ICA) balance	<u>\$ 105,248</u>	<u>171,397</u>
	<u>2011 (Expected)</u>	<u>2010 (Actual)</u>
Actual/ estimated creditable ratio for earnings distribution	<u>9.60%</u>	<u>22.27%</u>

4.14 Stockholders' Equity

4.14.1 Common Stock and Stock Issuances

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, 2011 and 2010, 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 for both years were issued as capital.

4.14.2 Treasury stock

- i. In 2011, in compliance with the Securities Exchange Act Section 28-1, the Company bought back common stock of 863 thousand shares to transfer to employees. As of December 31, 2011, number of shares not transferred totaled 863 thousand shares.
- ii. According to the Securities Exchange Act, the proportion of the Company's shares buyback cannot exceed 10% of the total issued shares; the total amount to buyback shares cannot exceed the sum of retained earnings plus premium on shares and realized capital reserve. The amount of shares the Company buyback for the period is a few thousand, totaling NT\$30,842 thousand, which is in compliance to the Securities Exchange Act. December 31, 2010 as the record date, the Company's upper limit of shares to buy back is 32,022 thousand shares, and the corresponding amount totaled NT\$4,798,637 thousand. Up till December 31, 2011, the Company's buyback in treasury stock was 863 thousand shares, and the amount totaled NT\$30,842 thousand.
- iii. According to Holy Stone's Articles of Incorporation, the Company's treasury stock, also end of period book value of treasury stock in retained earnings, is not allowed for the distribution of dividends.
- iv. According to the Securities Exchange Act, the Company's treasury stock is not to be pledged, and before transfer/sale, shall not be entitled to shareholders' rights.

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4.14.3 Capital Surplus

As of December 31, 2011 and 2010, the components of capital surplus are as follows:

	<u>12.31.2011</u>	<u>12.31.2010</u>
From cash capital increase	\$ 1,687,890	1,687,890
From convertible bonds	1,463,082	1,463,082
From bond options	95,986	113,267
From treasury stock	11,133	424
From Merger	144,225	144,225
From employees stock option	188,297	188,297
From employees' bonus	15,410	15,410
From long-term equity investment	<u>20,331</u>	<u>39,748</u>
	<u>\$ 3,626,354</u>	<u>3,652,343</u>

According to the revised Articles of Incorporation in 2012, realized capital surplus could only be transferred to common stock or applied to cash dividend payment after deducting the accumulated deficit, if any. Realized capital surplus stated above included premium from issuing stock and donated assets received. According to the provisions for Offering and Issuance of Securities, capital for annual appropriation in capital surplus shall not exceed 10 percent of the paid-in capital.

4.14.4 Legal Reserve

According to the revised Articles of Incorporation in 2012, 10 percent of the annual earnings shall be allocated as legal reserve until accumulated legal reserve equals the issued common stock. When the Company does not have any earnings, shareholders will approve whether to distribute new shares or cash from legal reserve during shareholders' meeting, but the reserve must exceed paid-in capital by 25 percent.

4.14.5 Special Reserve

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

4.14.6 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;

- i. Pay income taxes as required by law.
- ii. Offset accumulated deficits from previous years.
- iii. Allocate 10 percent to capital reserve, unless capital reserve has reached total paid-in capital.
- iv. Allocate a portion to special capital reserve, as required by government regulations.
- v. The surplus remaining after deduction of items i. to iv. should be allocated to the directors, supervisors and employees as follow:
  - (i.) Remuneration for directors and supervisors should not exceed 3 percent.
  - (ii.) Employee bonuses should be no less than 7 percent.

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.

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- vi. The surplus remaining after deductions of items i. to v. could be distributed to the shareholders after the resolution is approved in the shareholders' meeting.

For the years ended December 31, 2011 and 2010, 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 2011 and 2010, bonuses to employees were NT\$105,693 thousand and NT\$116,964 thousand, respectively, and remunerations to directors and supervisors were NT\$19,818 thousand and NT\$21,931 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 the distributed year.

The appropriation of 2010 and 2009 earnings was approved at the shareholders' meetings on June 10, 2011 and June 14, 2010, respectively as follows:

	<u>2010</u>	<u>2009</u>
Employee bonuses-stock	\$ 117,000	119,005
Directors' and supervisors' remuneration	<u>22,000</u>	<u>22,313</u>
	<u><b>\$ 139,000</b></u>	<u><b>141,318</b></u>

The 2009 appropriation of earnings did not differ from the resolutions approved by the Company's board of directors. The 2010 appropriation of earnings differed from the resolutions approved by the board in NT\$105 thousand, recognized as changes in accounting estimate and reported on the income statement of 2011. The difference was caused because of needs of future business development, production equipment expansion, and operating funds adjustment.

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

**4.14.7 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.

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4.14.8 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:

<u>ESO Plans</u>	<u>Resolving Date of the Board</u>	<u>Exercise Shares Per Unit</u>	<u>Units Granted Issued</u>	<u>Actual Issuing Date</u>	<u>Units Actually Issued</u>	<u>Original Exercise Price (NTD)</u>	<u>Exercise Price on Dec. 31, 2011 (NTD)</u>	<u>Issuing Way</u>
2006 1 <sup>st</sup> ESO Plan	07.10.2006	1	5,000,000	08.21.2006	1,500,000	\$ 49.3	31.40	In turns
"		-	-	06.15.2007	3,500,000	58.5	38.70	"
2007 1 <sup>st</sup> ESO Plan	11.11.2007	1	10,000,000	12.03.2007	10,000,000	50.0	35.40	One time

The aforementioned exercise prices have 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.

As of December 31, 2011, 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 <sup>st</sup> 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
2007 1 <sup>st</sup> ESO Plan	10,000,000	10,000,000	-	-	10,000,000	12.03.2007~12.02.2017
Total	<u>\$ 15,000,000</u>	<u>15,000,000</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 adjusted 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:

- i. No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2011 and 2010 since market value of stock at measurement date was equal to exercise price.
- ii. Had the Company used the fair value method to evaluate the options granted, relevant information would have been disclosed as follows:
  - (i) 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 for both 2011 and 2010. Assumptions used to estimate the fair value of the aforementioned employee stock

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options are summarized as follows:

	<u>2007 1<sup>st</sup> ESO Plan</u>	<u>2006 1<sup>st</sup> ESO Plan</u>	<u>2006 1<sup>st</sup> 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

(ii) A summary of the ESO plans is as follows:

<u>Stock Option</u>	<u>2011</u>		<u>2010</u>	
	<u>Unit (in thousands)</u>	<u>Weighted-average exercise price (NT\$)</u>	<u>Unit (in thousands)</u>	<u>Weighted-average exercise price (NT\$)</u>
Outstanding balance at the beginning of period	15,000	\$ 38.27	15,000	\$ 41.78
Option granted	-	-	-	-
Options exercised	-	-	-	-
Option expired	-	-	(1,049)	-
Outstanding balance at the end	<u>15,000</u>	38.27	<u>15,000</u>	38.27
Exercisable number at the end	<u>10,500</u>	35.93	<u>7,125</u>	38.20
Exercisable number at the end	-	-	-	-

(iii) As of December 31, 2011, details of outstanding options of the ESO plans are as follows:

<u>Exercise price (NT\$)</u>	<u>Outstanding stock options as of Dec. 31, 2011</u>			<u>Vested options</u>	
	<u>Units</u>	<u>Remaining vesting period</u>	<u>Exercise price (NT\$)</u>	<u>Units as of 12.31.2011</u>	<u>Exercise price (NT\$)</u>
\$ 31.40	1,500,000	0.64	\$ 31.40	1,500,000	\$ 31.40
38.70	3,500,000	1.45	38.70	3,500,000	38.70
35.40	10,000,000	5.93	35.40	5,500,000	35.40

(iv) 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:

		<u>2010</u>	<u>2009</u>
Net income	Net income as reported	\$ 761,510	832,234
	Pro forma net income	761,510	832,234
Basic earnings per share (NT Dollars)	Basic EPS as reported	2.38	2.77
	Pro forma basic EPS	2.38	2.77

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**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

4.15 Earnings per Share

The Company's basic earnings per share and diluted earnings per share of 2011 and 2010 were computed as follows:

	2011		2010	
	Before income tax	After income tax	Before income tax	After income tax
<b>Basic EPS</b>				
Net income	<u>\$ 795,489</u>	<u>761,510</u>	<u>970,691</u>	<u>832,234</u>
Weighted average number of shares outstanding (in thousand)	<u>319,599</u>	<u>319,599</u>	<u>300,779</u>	<u>300,779</u>
<b>Basic EPS ( NT Dollars)</b>	<u>\$ 2.49</u>	<u>2.38</u>	<u>3.23</u>	<u>2.77</u>
<b>Diluted EPS</b>				
Net income	\$ 795,489	761,510	970,691	832,234
Effect of dilution on potential common stock – convertible bonds	<u>7,948</u>	<u>7,948</u>	<u>4,445</u>	<u>4,445</u>
Diluted EPS-net income	<u>\$ 803,437</u>	<u>769,458</u>	<u>975,136</u>	<u>836,679</u>
Weighted-average number of shares outstanding (in thousands)	319,599	319,599	300,779	300,779
Expensing employee bonus	5,678	5,678	4,513	4,513
Employee stock options	24	24	731	731
Domestic convertible bond	<u>17,250</u>	<u>17,250</u>	<u>9,252</u>	<u>9,252</u>
Diluted EPS- weighted-average number of shares outstanding (in thousand)	<u>342,551</u>	<u>342,551</u>	<u>315,275</u>	<u>315,275</u>
<b>Diluted EPS (NT Dollars)</b>	<u>\$ 2.35</u>	<u>2.25</u>	<u>3.09</u>	<u>2.65</u>

4.16 Additional Disclosure on Financial Instruments

4.16.1 Fair value information

As of December 31, 2011 and 2010, the fair value of the Company's financial assets and liabilities is as follows:

	12.31.2011		12.31.2010	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 1,703,114	1,703,114	1,644,489	1,644,489
Financial assets at fair value through profit or loss-current	244,101	244,101	310,220	310,220
Notes and accounts receivable (including related parties)	3,538,203	3,538,203	3,339,846	3,339,846
Other financial assets-current	200,334	200,334	151,650	151,650
Available-for-sale financial assets - noncurrent	97,809	97,809	360,402	360,402
Financial assets carried at cost - noncurrent	300,000	Note	300,000	Note
<b>Financial liabilities:</b>				
Short-term loans	1,186,661	1,186,661	895,339	895,339
Notes and accounts payable (including related parties)	1,315,603	1,315,603	1,426,538	1,426,538
Bonds payable (current portion)	567,863	567,863	661,864	661,864
Long-term borrowing (including current portion)	219,500	219,500	365,833	365,833

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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**NOTES TO FINANCIAL STATEMENTS (Continued)**

4.16.2 The following methods and assumptions are used to estimate the fair value of financial instruments:

- i. 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.
- ii. 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.
- iii. The fair value of bonds payable was based on their quoted market price. If the market price is unavailable, the fair value would be based on the market stated price.
- iv. The fair value of long-term borrowings approximates their carrying amount due to floating interest rate.

4.16.3 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:

	12.31.2011		12.31.2010	
	Publicly quoted market prices	Fair value based on valuation technique	Publicly quoted market prices	Fair value based on valuation technique
Financial assets:				
Cash and cash equivalents	\$ -	1,703,114	-	1,644,489
Financial assets at fair value through profit or loss-current:	244,101	-	252,927	57,293
Notes and accounts receivable (including related parties)	-	3,538,203	-	3,339,846
Available-for-sale financial assets - noncurrent	-	200,334	-	151,650
Financial liabilities:	97,809	-	360,402	-
Short-term loans				
Notes and accounts payable (including related parties)	-	1,186,661	-	895,339
Bonds payable (current portion)	-	3,980	-	-
Long-term borrowing (including current portion)	-	1,315,603	-	1,426,538

4.16.4 Information on financial risks

i. 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 fluctuations in securities market.

ii. 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 within one institution. As a result, the Company believes that there is a limited concentration of credit risk in cash and

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### Holy Stone Enterprise Company Limited

#### NOTES TO FINANCIAL STATEMENTS (Continued)

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. When necessary, the Company will request collateral from its customers.

iii. Liquidity risk

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

iv. 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 fluctuations 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 change in interest expense would have been NT\$14,062 thousand.

#### 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)
MARTEK CO., LTD. ("MARTEK")	Subsidiary of Holy Stone (H.S)
Ohga Electronics Co., Ltd. ("Ohga")	Subsidiary of Holy Stone (H.S)
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

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

5.2 Significant Transactions with Related Parties

Significant transactions with related parties in 2011 and 2010, and the transaction remainders as of December 31, 2011 and 2010 are as follows:

5.2.1 Sales

	2011		2010	
	Amount	% of net sales	Amount	% of net sales
Holy Stone (Hong Kong)	\$ 1,244,550	9.47	1,236,766	9.76
Holy Stone (Shanghai)	1,241,527	9.44	1,017,209	8.02
Infotech (CHINA)	382,219	2.91	406,307	3.20
Others	13,653	0.10	3,031	0.02
	<b>\$ 2,881,949</b>	<b>21.92</b>	<b>2,663,313</b>	<b>21.00</b>

As of December 31, 2011 and 2010, the deferred unrealized gross profits, made by downstream transactions with the affiliates, were NT\$17,817 thousand and NT\$18,003 thousand, 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.

5.2.2 Purchases

	2011		2010	
	Amount	% of net purchases	Amount	% of net purchases
HPC	\$ 243,041	2.25	253,565	2.27
EETI	99,724	0.92	60,596	0.54
Others	1,524	0.01	3,296	0.03
	<b>\$ 344,289</b>	<b>3.18</b>	<b>317,457</b>	<b>2.84</b>

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 45 days, respectively.

Unrealized internal profit, inventory bought from investee companies and haven't been sold at the end of the period, amounted to NT\$1,811 thousand and NT\$6,934 thousand as of December 31, 2011 and 2010, respectively. These were recognized as deductions in "Long-term equity investments under equity method" and "Investment income."

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### Holy Stone Enterprise Company Limited

#### NOTES TO FINANCIAL STATEMENTS (Continued)

##### 5.2.3 The remainders of notes and accounts receivable and payable

The remainders of 2011 and 2010 year-end receivables and payables incurred by purchases and sales as mentioned above are as follows:

	12.31.2011		12.31.2010	
	Amount	%	Amount	%
Notes and accounts receivable:				
Holy Stone (Hong Kong)	\$ 459,385	12.98	540,892	16.20
Holy Stone (Shanghai)	570,220	16.12	393,528	11.79
Infortech (CHINA)	135,627	3.83	110,471	3.31
Others	580	-	1,076	0.03
	<u>\$ 1,165,812</u>	<u>32.93</u>	<u>1,045,967</u>	<u>31.33</u>

	12.31.2011		12.31.2010	
	Amount	%	Amount	%
Notes and accounts payable:				
HPC	\$ 38,002	2.89	30,194	2.12
EETI	23,026	1.75	13,744	0.96
Others	24	-	-	-
	<u>\$ 61,052</u>	<u>4.64</u>	<u>43,938</u>	<u>3.08</u>

##### 5.2.4 Financing

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

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

##### 5.2.5 Lease agreement

The Company leased buildings to MARTEK and other related parties, and rentals amounted to NT\$705 thousand and NT\$979 thousand for December 31, 2011 and 2010, and were recognized as "Other expenses." According to lease contracts, the aforementioned rentals were monthly received. As of December 31, 2011 and 2010, the rentals which had not been received were NT\$0 and NT\$5,000, respectively.

##### 5.2.6 Property transaction

Between 2011 and 2010, the Company purchased equipments for NT\$4,721 thousand (¥12,265,000) and NT\$6,943 thousand (¥20,254,000), respectively, from HPC. As of December 31, 2011, the payment had been settled.

##### 5.2.7 Others

i. During 2011 and 2010, the Company paid commissions of NT\$52,271 thousand and NT\$62,384 thousand, respectively, to MGT and HSE for business promotion. The commissions were recorded in

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#### NOTES TO FINANCIAL STATEMENTS (Continued)

“Selling and administrative” account. Unpaid commission was NT\$4,039 thousand and NT\$3,880 thousand as of December 31, 2011 and 2010, respectively.

- ii. 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, 2011 and 2010, receivables were NT\$0 and NT\$1,024 thousand, respectively.
- iii. As of December 31, 2011 and 2010, receivables from related parties due to on behalf of the Company, collection and payment fees, expenses and other expenditure, amounted to NT\$229 thousand and NT\$171 thousand, respectively. Other expenses and other expenditure amounted to NT\$1,587 thousand and NT\$0, respectively.

#### 5.2.8 Endorsements/Guarantees

- i. On December 31, 2011 and 2010, the remainders of the endorsements/guarantees made by the Company for Martek were both NT\$20,000 thousand.
- ii. Approved by the board in August 2010, the Company endorsed US\$10,000 for HPC. And on December 31, 2011 and 2010, the Company endorsements for HPC’s bank loans was worth NT\$195,300 thousand (¥500,000,000).
- iii. 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.”

5.2.9 Details on receivables from related parties on December 31, 2011 and 2010 are summarized as follows:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Notes and accounts receivable	\$ 1,165,812	1,045,967
Other receivables	229	1,200
	<u><b>\$ 1,166,041</b></u>	<u><b>1,047,167</b></u>

5.2.10 Details on payables from related parties on December 31, 2011 and 2010 are summarized as follows:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Notes and accounts payable	\$ 61,052	43,938
Other payables	5,626	3,880
	<u><b>\$ 66,678</b></u>	<u><b>47,818</b></u>

#### 5.3 Main Managers’ Remuneration

Details on remuneration paid to directors, supervisors, president, and vice presidents in 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Remuneration	\$ 34,413	36,570
Expense of execution	1,440	1,440
Employees’ bonus	17,000	27,000

The aforementioned amount included directors’ and supervisors’ remuneration and estimated employees’ bonus. Please refer to the description of the stockholders’ equity item for additional information.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**6. Pledged Assets**

As of December 31, 2011 and 2010, details on carrying amount of pledged assets as collaterals against bank loans are as follows:

Pledged assets	Pledged to secure	Carrying amount	
		12.31.2011	12.31.2010
Time deposits (recognized as other financial assets-current)	Import duties	\$ 48,699	58,596
"	Loans from subsidiary	-	32,000
Land	Short-term loans	-	75,891
Buildings	"	-	6,421
<b>Total</b>		<b>\$ 48,699</b>	<b>172,908</b>

**7. Commitments and Contingencies**

The outstanding letters of credit facilitate the Company's purchase of materials. As of December 31, 2011 and 2010, the Company's outstanding letters of credit amounted to NT\$639,284 thousand and NT\$443,685 thousand, respectively.

**8. Significant Disaster Loss: None.**

**9. Significant Subsequent Events: None.**

**10. Others**

10.1 Personnel, depreciation and amortization expenses are summarized by functions as follows:

Characters	Functions	2011			2010		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel Costs							
Payroll		193,928	380,247	574,175	224,093	382,066	606,159
Labor and health		20,702	22,883	43,585	21,143	20,119	41,262
Pension expense		12,168	16,255	28,423	13,201	14,538	27,739
Others (Note)		6,256	8,593	14,849	6,217	8,533	14,750
Depreciation		209,251	15,945	225,196	177,099	17,872	194,971

Note: Includes meals and training expenses.

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### Holy Stone Enterprise Company Limited

#### NOTES TO FINANCIAL STATEMENTS (Continued)

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

	12.31.2011			12.31.2010		
	Foreign Currency	Rate	NT\$	Foreign Currency	Rate	NT\$
<u>Financial Assets</u>						
<u>Currency-related items</u>						
USD	\$ 109,712	30.275	3,321,543	110,35€	29.13	3,214,748
EUR	30	39.18	1,183	9€	38.92	3,618
HKD	13,049	3.897	50,855	10,567	3.748	39,606
JPY	309,863	0.3906	121,032	187,40€	0.3582	67,130
<u>Noncurrency-related items</u>						
USD	188	30.275	5,691	-	-	-
HKD	2,636	3.897	10,272	4,86€	3.748	18,246
<u>Long-term investments by equity method</u>						
USD	38,661	30.275	1,170,461	36,79€	29.13	1,071,835
<u>Financial Liabilities</u>						
<u>Noncurrency-related items</u>						
USD	75,157	30.275	2,275,368	75,391	29.13	2,196,142
JPY	412,816	0.3906	161,246	258,24€	0.3582	92,502
GBP	28	46.73	1,313	21	45.19	966

#### 10.3 Reclassification

Figures of 2010 financial statements were reclassified properly in order to match those of 2011 financial statements.

### 11. Additional Disclosures

#### 11.1 Significant Transaction Information

In 2011, the additional disclosures required by the Regulations Governing the Preparation of Financial Report are as follows:

11.1.1 Financing to related parties: None.

11.1.2 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	1,818,620	20,000	20,000	-	0.22%	4,546,551
0	The Company	Holy Stone Holding Co., Ltd.	Subsidiary	-	32,000	-	-	-%	-
0	The Company	Holy Stone Polytech Co., Ltd.	Subsidiary	1,818,620	198,750	195,300	-	2.15%	4,546,551

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.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

11.1.3 Marketable securities held:

Unit: Thousand shares

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				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	408	6,551	-	6,551	-
The Company	DIRXDLY 7-10Y	-	“	1	829	-	829	-
The Company	ISHARES MSCI GERMANY INDEX	-	“	6	3,491	-	3,491	-
The Company	TIAN POWER	-	“	100	1,363	-	1,363	-
The Company	D-Link Corporate Bond C	-	Financial assets at fair value through profit or loss - current – bond	200	20,000	-	20,000	-
The Company	Everlight Corporate Bond D	-	“	100	20,000	-	20,000	-
The Company	SerComm Corporate Bond C	-	“	800	83,232	-	83,232	-
The Company	Aces Corporate Bond A	-	“	300	30,300	-	30,300	-
The Company	AVC Corporate Bond A	-	“	200	20,604	-	20,604	-
The Company	Tung Thih Corporate Bond A	-	“	200	20,000	-	20,000	-
The Company	Giantplus Corporate Bond B (81052)	-	“	10	868	-	868	-
The Company	Mega Holdings Exchangeable Bond (288601)	-	“	260	25,298	-	25,298	-
The Company	Win Semiconductor (3105)	-	“	150	4,410	-	4,410	-
The Company	Cathay Hong Kong and Taiwan Fund	-	Financial assets at fair value through profit or loss - current – open-ended fund	978	7,155	-	7,155	-
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of the Company	Long-term equity investment	11,500	177,347	100.00	177,347	-
The Company	Holy Stone Holdings Co., Ltd. Stock	Subsidiary of the Company	“	26,976	991,303	100.00	993,114	-
The Company	UHOLY Investments Co., Ltd. Stock	Subsidiary of the Company	“	22,500	422,039	57.69	420,660	-
The Company	Taiwan Mahk Opt Co., Ltd. Stock	Subsidiary of the Company	“	8,500	146,169	100.00	146,169	-
The Company	Rong Jhan Investments Co., Ltd. Stock	Subsidiary of the Company	“	45,000	575,968	100.00	575,968	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets - noncurrent	582	82,425	-	82,425	-
The Company	eGalax_eMPIA Technology Inc. Stock	-	“	260	15,384	-	15,384	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	Financial assets carried at cost - noncurrent	7,500	300,000	-	300,000	-

11.1.4 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				Ending Balance		
					Share	Amount	Share	Amount	Share	Amount	Carrying Value	Gain (Loss) on Disposal	Valuation Gain (Loss)	Share	Amount
The Company	Fuh Hwa Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	74,834	1,040,000	74,834	1,041,009	1,040,000	1,009	-	-	-
The Company	Mega Diamond Money Market Fund	“	-	-	-	-	93,226	1,120,000	93,226	1,121,600	1,120,000	1,600	-	-	-
The Company	Cathay Taiwan Money Market Fund	“	-	-	-	-	25,020	300,000	25,020	300,327	300,000	327	-	-	-
The Company	Fuh Hwa Benefit Fund	“	-	-	-	-	51,343	665,000	51,343	665,743	665,000	743	-	-	-
The Company	KGI Victory Fund	“	-	-	-	-	8,989	100,000	8,989	100,135	100,000	135	-	-	-
The Company	Hua Nan Fung Cheung Money Market Fund	“	-	-	-	-	33,878	530,000	33,878	530,579	530,000	579	-	-	-
The Company	Hua Nan Kirin Money Market Fund	“	-	-	-	-	17,331	200,000	17,331	200,245	200,000	245	-	-	-

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
					Share	Amount	Share	Amount	Share	Amount	Carrying Value	Gain (Loss) on Disposal	Valuation Gain (Loss)	Share	Amount
The Company	Taishin 1699 Money Market	"	-	-	-	-	51,180	665,000	51,180	665,681	665,000	681	-	-	-
The Company	Taishin Public Money Market	"	-	-	-	-	32,926	450,000	32,926	450,225	450,000	225	-	-	-
The Company	KGI at thirty	"	-	-	-	-	-	550,000	-	550,801	550,000	801	-	-	-

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

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

11.1.7 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	1,244,550	9.47%	Next month-end 120 days	-	-	459,385	12.98%	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	Sales	1,241,527	9.44%	Next month-end 150 days	-	-	570,220	16.12%	-
The Company	Infotech (CHINA) Co., Ltd.	Subsidiary of H.S.I	Sales	382,219	2.91%	Month-end 120 days	-	-	135,627	3.83%	-
The Company	Holy Stone Polytech Co., Ltd.	Subsidiary of Holy Stone Holdings	Purchases	243,041	2.25%	Month-end 45 days	-	-	(38,002)	2.89%	-

11.1.8 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	459,385	2.49	-	-	72,786	-	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	570,220	2.58	-	-	106,168	-	-
The Company	Infotech (CHINA) Co., Ltd.	Subsidiary of H.S.I	135,627	3.11	-	-	-	-	-

11.1.9 Derivatives transaction:

Please refer to Financial Statements Notes 4.2 and 4.11 to get the Company's derivatives transaction information in 2011.

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

Related information on investee companies of 2011 is as follows:

11.2.1 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, 2011			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				Dec. 31, 2011	Dec. 31, 2010	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%	177,347	9,729	9,729	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	991,303	21,193	26,316	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	422,039	49,471	28,544	Subsidiary of the Company
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%	146,169	44,767	44,767	Subsidiary of the Company
The Company	Rong Jhan Investments Co., Ltd.	Taipei City	Investment activities	340,000	340,000	45,000	100.00%	575,968	50,739	50,739	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 8,717,449	USD 616,177	USD 616,177	Subsidiary of Holy Stone Holdings Co., Ltd.

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Holy Stone Holdings	Holypaq Corporation	Cayman	Investment activities	USD 1,200,000	USD 1,200,000	1,200	100.00%	USD 285,215	USD 49,164	USD 49,164	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings	Green Glory Holdings Ltd.	Samoa	Investment activities	USD 2,140,624	USD 2,140,624	2,210	100.00%	USD 1,536,275	USD 47,131	USD 47,131	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 16,620,440	USD 1,648,729	USD 1,648,729	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings	Holy Stone Polytech Co., Ltd	Japan	Electronics manufacturing and retailing, electro-mechanical appliances and electrical machinery materials, and sales	JPY 483,000,000	JPY 483,000,000	4,830	98.57%	USD 5,170,908	JPY (77,958,256)	USD (968,227)	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings	Everplus Material Co., Ltd.	Japan	Electronics manufacturing and retailing, electro-mechanical appliances and electrical machinery materials, and sales	JPY 350,000,000	-	3,500	100.00%	USD 4,283,111	JPY (17,975,917)	USD (226,497)	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 5,501,600	CNY 162,883	USD 25,312	Subsidiary of Holy Stone Investments Co., Ltd.
Holy Stone Investments Co., Ltd	Infortech (China) Co., Ltd.	Shanghai, China	Electronic components selling	USD 2,100,000	USD 2,100,000	2,100	100.00%	USD 3,181,224	CNY 3,805,550	USD 591,382	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 (228,531)	CNY (228,531)	Subsidiary of Infortech (CHINA)
Holypaq 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 263,074	CNY 346,020	USD 53,772	Subsidiary of Holypaq 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 862,975	CNY 59,788	USD 9,291	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 413,756	USD 56,206	USD 56,206	Subsidiary of Green Glory Holdings
Green Glory Holdings	Holy Stone (Europe) Ltd.	England	Electronic retailing and trading	USD 686,873	USD 686,873	350	100.00%	USD 240,593	GBP (10,939)	USD (17,541)	Subsidiary of Green Glory Holdings
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co., Ltd.	Taipei City	Western medicine wholesaling and medical instruments wholesaling	94,107	64,505	8,967	38.00%	49,407	(24,591)	(10,191)	UHOLY's long-term investee 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%	30,794	CHF 121,922	3,063	Subsidiary of Holy Stone Healthcare Co., Ltd.
Holy Stone Healthcare Co., Ltd.	Global Search Holdings Ltd.	Samoa	Investment activities	USD 150,000	USD 150,000	150	100.00%	4,441	USD (875)	(26)	Subsidiary of Holy Stone Healthcare Co., Ltd.
Rong Jhan Investments Co.	OHGA Electronics Co., Ltd.	Taipei County	Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70%	416,241	67,412	48,563	Subsidiary of Rong Jhan Investments Co., Ltd.
Rong Jhan Investments Co.	Aveo Multimedia Corporation	Taipei County	Electronic components manufacturing	34,180	-	3,418	34.18%	27,786	(6,889)	(6,889)	Subsidiary of Rong Jhan Investments Co., Ltd.
OHGA Electronics Co., Ltd.	Aveo Multimedia Corporation	Taipei County	Electronic components manufacturing	10,000	-	1,000	10.00%	8,477	(16,676)	(1,523)	Subsidiary of Rong Jhan Investments Co., Ltd.
Aveo Multimedia Corporation	HAV Co., Ltd.	Samoa	Investment activities	USD 1,200,000	-	1,500	100.00%	27,376	USD (595,755)	(17,510)	Subsidiary of Aveo Multimedia Corporation

**11.2.2 Financing to related parties:**

Unit: Thousand of NT\$

No.	Lender	Borrower	Subject	Maximum balance	Lending balance	Actual transaction balance	Interest rate	Character	Transaction amount	Necessity of short-term financing	Allowance for doubtful accounts	Collateral		Limitations to individual borrower	Total limitations
												Item	Value		
1	Holy Stone Polytech Co., Ltd	Holy Stone Holding Co	Other receivables	18,165	18,165	18,165	2.00%	Necessary for short	-	Operation turnover	-	-	-	15,884	63,536
2	Holy Stone Enterprise (H.K) Co., Ltd.	Holy Stone Holding Co	Other receivables	45,413	45,413	45,413	1.80%	Necessary for short	-	Operation turnover	-	-	-	9,093,102	9,093,102
3	Holy Stone Holding Co.	Infortech (China) Co., Ltd.	Other receivables	63,578	75,688	63,578	2.20%	Necessary for short	-	Operation turnover	-	-	-	9,093,102	9,093,102
3	Holy Stone Holding Co.	Holy Stone International trading (Shanghai) Co., Ltd.	Other receivables	-	90,285	-	-	Necessary for short-term financing	-	Operation turnover	-	-	-	9,093,102	9,093,102

Note: Financing to related parties is limited to 40 percent of the Company's net worth; the maximum amount to finance a single company is 10% of the Company's net worth; the foreign companies which the Company owns 100% voting shares are not limited from net worth restrictions (parent company's net worth).

**11.2.3 Endorsement/guarantee provided: None.**

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

11.2.4 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, 2011				Note
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	6,900	USD 8,717,449	100.00	USD 8,717,449	-
Holy Stone Holdings Co., Ltd.	Holypaq Corporation Stocks	Subsidiary of H.S.H	Long-term equity investment	1,200	USD 285,215	100.00	USD 285,215	-
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,210	USD 1,536,275	100.00	USD 1,536,275	-
Holy Stone Holdings Co., Ltd.	Mayatek Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,500	USD 16,620,440	100.00	USD 16,620,440	-
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	4,830	USD 5,170,908	98.57	JPY 406,654,758	-
Holy Stone Holdings Co., Ltd.	Everplus Material Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	3,500	USD 4,283,111	100.00	JPY 332,024,083	-
Holy Stone Investments Co., Ltd.	Holy Stone international trading (Shanghai) Co., Ltd. Equity	Subsidiary of H.S.I	Long-term equity investment	4,010	USD 5,501,600	100.00	CNY 34,644,838	-
Holy Stone Investments Co., Ltd.	Infortech (CHINA) CO., LTD. Equity	Subsidiary of H.S.I	Long-term equity investment	2,100	USD 3,181,224	100.00	CNY 20,032,899	-
Holypaq Corporation	HolyPAQ (Dongguan) Corporation Equity	Subsidiary of Holypaq Corporation	Long-term equity investment	1,000	USD 263,074	100.00	CNY 1,656,635	-
Green Glory Holdings Ltd.	Infortech International Trading (Shanghai) Ltd. Equity	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	1,000	USD 862,975	100.00	CNY 5,434,349	-
Green Glory Holdings Ltd.	Milestone Global Technology Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	500	USD 413,756	100.00	USD 413,756	-
Green Glory Holdings Ltd.	Holystone (Europe) Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	350	USD 240,593	100.00	GBP 155,875	-
Holy Stone Enterprise (H.K) Co.	Bearer Glencore International AG	-	Financial assets at fair value through profit or loss - current - foreign stock	5	USD 29,804	-	HKD 231,573	-
Holy Stone Enterprise (H.K) Co.	ISHARES MSCI Germany Index Fund	-	Financial assets at fair value through profit or loss - current - open-ended fund	6	USD 114,720	-	USD 114,720	-
UHOLY Investments Co. Ltd.	Taiwan Hon Chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current - domestic stock	115	6,417	-	6,417	-
UHOLY Investments Co. Ltd.	Tainan Enterprises Co., Ltd.	-	Financial assets at fair value through profit or loss - current - domestic stock	70	2,471	-	2,471	-
UHOLY Investments Co. Ltd.	Kianshen Corporation	-	Financial assets at fair value through profit or loss - current - domestic stock	16	614	-	614	-
UHOLY Investments Co. Ltd.	Kung Long Batteries Ind. Co., Ltd.	-	Financial assets at fair value through profit or loss - current - domestic stock	50	2,050	-	2,050	-
UHOLY Investments Co. Ltd.	Nishoku Technology Inc.	-	Financial assets at fair value through profit or loss - current - domestic stock	429	25,311	-	25,311	-
UHOLY Investments Co. Ltd.	Win Semiconductors Corp	-	Financial assets at fair value through profit or loss - current - domestic stock	50	1,470	-	1,470	-
UHOLY Investments Co. Ltd.	Holy Stone Healthcare Co. Ltd. Stocks	Subsidiary of UHOLY Investments Co. Ltd.	Long-term equity investment	8,967	49,407	38.00	49,407	-
UHOLY Investments Co. Ltd.	EETI Stocks	-	Available-for-sale financial assets - noncurrent	5,696	337,200	-	337,200	-
UHOLY Investments Co. Ltd.	INPAQ Technology Co., Ltd. Stocks	-	Available-for-sale financial assets - noncurrent	4,124	74,447	-	74,447	-
UHOLY Investments Co. Ltd.	Innovation Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	8,900	89,000	-	89,000	-
UHOLY Investments Co. Ltd.	C2 MICROSYSTEMS INC. Preferred stocks	-	Financial assets carried at cost - noncurrent	1,500	29,809	-	29,809	-
UHOLY Investments Co. Ltd.	Zelltek Technology Corp. Stocks	-	Financial assets carried at cost - noncurrent	859	19,757	-	19,757	-
UHOLY Investments Co. Ltd.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent	599	2,994	-	2,994	-
UHOLY Investments Co. Ltd.	Innostone Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	5,900	59,000	-	59,000	-
Holy Stone Healthcare Co.	Holygene Corporation Stocks	-	Financial assets carried at cost - noncurrent	1,266	(16,860)	-	(16,860)	-
Holy Stone Healthcare Co.	MDT INT'L SA Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	1,275	30,796	50.00	CHF 1,069,353	-
Holy Stone Healthcare Co.	Global Search Holdings Ltd. Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	150	4,496	100.00	USD 147,522	-
Rong Jhan Investments Co.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent	150	4,500	-	4,500	-
Rong Jhan Investments Co.	Grand Fortune Securities Co., Ltd Stocks	-	Financial assets carried at cost - noncurrent	5,000	45,000	-	45,000	-
Rong Jhan Investments Co.	OHGA Electronics Co., Ltd. Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	15,120	416,241	70.00	416,241	-
Rong Jhan Investments Co.	Aveo Multimedia Corporation	-	Long-term equity investment	3,418	27,786	34.18	27,786	-

**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, 2011				Note
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
Rong Jhan Investments Co.	Taiwan Hon Chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current - domestic stock	160	8,928	-	8,928	-
Rong Jhan Investments Co.	EETI Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	0.3	15	-	15	-
Rong Jhan Investments Co.	Win Semiconductors Corp	-	Financial assets at fair value through profit or loss - current - domestic stock	340	9,996	-	9,996	-
OHGA Electronics Co., Ltd.	Aveo Multimedia Corporation Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	1,000	8,477	10.00	8,477	-
OHGA Electronics Co., Ltd.	ASW Sercomm C	-	Financial assets at fair value through profit or loss - current - bond	100	10,404	-	10,404	-
OHGA Electronics Co., Ltd.	ASW Aces A	-	Financial assets at fair value through profit or loss - current - bond	200	20,200	-	20,200	-
Aveo Multimedia Corporation	HAV Co., Ltd. Stocks	Subsidiary of Aveo Multimedia Corporation	Long-term equity investment	1,200	27,376	100.00	USD 904,245	-

11.2.5 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			Evaluation (Loss) Gain	End of Period		
					Shares (Units)	Value	Shares (Units)	Value	Shares (Units)	Price	Carrying Cost		Gain or Loss on Disposal	Shares (Units)	Value
UHOLY Investments Co. Ltd.	Fuh Hwa Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	3,846	53,171	4,611	64,000	8,457	117,419	117,171	248	-	-	-
Martek Co., Ltd.	Fuh Hwa Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	14,982	208,000	14,982	208,193	208,000	193	-	-	-
Martek Co., Ltd.	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	10,130	122,000	10,130	122,129	122,000	129	-	-	-

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

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

11.2.8 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	1,244,550	99.77 %	Next month-end 120 days	-	-	(459,385)	98.03%	-
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Subsidiary of H.S.I	Purchases	1,241,527	90.35 %	Next month-end 150 days	-	-	(570,220)	89.12%	-
Infortech (CHINA) CO., LTD.	The Company	Subsidiary of H.S.I	Purchases	382,219	98.74%	Month-end 120 days	-	-	(135,627)	92.01%	-
Holy Stone Polytech Co., Ltd.	The Company	Subsidiary of H.S.H	Sales	243,041	43.74%	Month-end 45 days	-	-	38,002	21.34%	-

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

**English Translations of Notes Originally Issued in Chinese**

**Holy Stone Enterprise Company Limited**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

11.2.10 Derivatives transaction:

Investee Companies' Derivatives Transaction in 2011:

No.	Company Name	Derivative	Nominal Principal (thousand)	Term	Fair Value
1	Martek Co.	Forward Foreign Exchange Contract	USD 400	12.16.2011~01.13.2012	4
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 700	11.10.2011~01.09.2012	(73)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	11.22.2011~01.09.2012	(19)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	11.23.2011~02.09.2012	12
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 600	12.13.2011~02.09.2012	(26)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 700	12.29.2011~03.09.2012	49

Investee companies recognized financial assets at fair value through profit or loss – current of \$3,079 thousand loss in 2011.

11.3 Information on Investment in Mainland China

11.3.1 Status of investment

Unit: US\$

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method	Accumulated Remittance as of Dec. 31, 2011	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, 2011
					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 25,312	USD 5,501,600	-
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 53,772	USD 263,074	-
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 9,291	USD 862,975	-
Infortech (CHINA) CO., LTD.	Electronic components selling	USD 2,100,000		USD 2,100,000	-	-	USD 2,100,000	100 %	USD 591,382	USD 3,181,224	-

Note 1: Excluding US\$400,000 of capitalized profits.

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

11.3.2 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 ) 233,420	(USD 8,110,000 ) 245,530	5,455,861

11.3.3 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 Note 11.2 of investee company information.

**12. Segment Financial Information**

The Company has disclosed division information in the consolidated financial report; therefore, financial report for the parent company will not include information on the divisions.

## 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, 2011, 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 16, 2012

## 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, 2011 and 2010, and the related consolidated statements of income, changes in shareholders equity and cash flows for the years 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\$2,344,535 thousand and NT\$2,842,094 thousand as of December 31, 2011 and 2010, respectively, a 16.20 percent and 19.27 percent of total consolidated assets; consolidated revenues of 2011 and 2010 totaled NT\$1,588,533 thousand and NT\$2,464,682 thousand, respectively, a 10.16 percent and 16.56 percent of total consolidated revenues.

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. These 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 and other auditors provide a reasonable basis for opinion.

In our opinion, the consolidated financial statements referred above present fairly, in all material respects, the consolidated financial position of Holy Stone Enterprise Company Limited as of December 31, 2011 and 2010, 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 16, 2012

**English Translations of Consolidated Financial Statements Originally Issued in Chinese**

**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**December 31, 2011 and 2010**

**(Expressed in Thousands of New Taiwan Dollars)**

Assets	12.31.2011		12.31.2010		Liabilities and stockholders' equity	12.31.2011		12.31.2010	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (Note 4.1)	\$ 2,941,203	20	2,295,905	16	Short-term loans (Note 4.10 and 6)	\$ 1,696,007	12	1,254,104	9
Financial assets at fair value through profit or loss-current (Note 4.2, 4.12)	336,353	2	481,837	3	Financial liabilities at fair value through profit or loss-current (Note 4.2 and 4.12)	4,033	-	-	-
Notes and accounts receivable, net (Note 4.3)	3,743,446	26	3,722,755	25	Notes and Accounts Payable	1,533,100	11	1,607,883	11
Other financial assets-current (Note 6)	216,974	1	165,716	1	Payables to related parties (Note 5)	23,026	-	13,744	-
Inventories, net (Note 4.4)	2,251,483	16	2,565,368	17	Income tax payable	24,159	-	74,827	1
Prepaid expenses and other current assets (Note 4.14)	84,674	1	127,329	1	Accrued expenses and other current liabilities	519,766	4	541,576	4
Noncurrent assets held for sales (Note 4.6)	30,000	-	-	-	Current portion of bonds payable (Note 4.12)	567,863	4	-	-
<b>Total current assets</b>	<b>9,604,133</b>	<b>66</b>	<b>9,358,910</b>	<b>63</b>	Current portion of long-term debt (Note 4.11 and 6)	152,450	1	146,333	1
<b>Funds and investments:</b>					<b>Total current liabilities</b>	<b>4,520,404</b>	<b>32</b>	<b>3,638,467</b>	<b>26</b>
Available-for-sale financial assets-noncurrent (Note 4.2)	509,456	4	1,171,604	8	<b>Long-term liabilities</b>				
Financial assets carried at cost-noncurrent (Note 4.2)	550,060	4	550,060	4	Corporate bonds payable (Note 4.12)	-	-	661,864	4
<b>Total funds and investments</b>	<b>1,059,516</b>	<b>8</b>	<b>1,721,664</b>	<b>12</b>	Long-term debt (Note 4.11 and 6)	217,050	2	369,500	3
<b>Property, plant and equipment: (Note 4.7 and 6)</b>					<b>Total long-term liabilities</b>	<b>217,050</b>	<b>2</b>	<b>1,031,364</b>	<b>7</b>
Land	760,564	5	760,026	5	<b>Other liabilities:</b>				
Buildings	1,417,115	10	1,343,722	9	Accrued pension liabilities (Note 4.13)	7,810	-	26,732	-
Machinery and equipment	1,716,759	12	1,463,767	10	Deferred tax liabilities (Note 4.14)	43,915	-	28,228	-
Leasing assets	47,568	-	47,568	-	Other liabilities (Note 4.5)	17,292	-	12,089	-
Other equipment	290,044	2	247,854	2	<b>Total other liabilities</b>	<b>69,017</b>	<b>-</b>	<b>67,049</b>	<b>-</b>
Subtotal	4,232,050	29	3,862,937	26	<b>Total liabilities</b>	<b>4,806,471</b>	<b>34</b>	<b>4,736,880</b>	<b>33</b>
Less: Accumulated depreciation	(1,277,741)	(9)	(1,037,776)	(7)	<b>Stockholders' equity (Note 4.12, 4.13 and 4.15):</b>				
Construction in progress and prepayments for equipment	233,178	2	227,149	2	Common stock	3,202,175	22	3,202,175	21
<b>Net property, plant and equipment</b>	<b>3,187,487</b>	<b>22</b>	<b>3,052,310</b>	<b>21</b>	Capital surplus	3,626,354	25	3,652,343	24
<b>Intangible assets (Note 4.7)</b>	<b>598,577</b>	<b>4</b>	<b>596,853</b>	<b>4</b>	Retained earnings:				
<b>Other assets (Note 4.8)</b>	<b>18,971</b>	<b>-</b>	<b>20,972</b>	<b>-</b>	Legal reserve	860,061	6	776,837	5
					Unappropriated earnings	1,200,758	8	1,258,972	9
						2,060,819	14	2,035,809	14
					Others:				
					Cumulative translation adjustments	32,119	-	(24,681)	-
					Net loss unrecognized as pension cost	-	-	(20,223)	-
					Unrealized gain or loss on financial instruments	202,477	1	528,873	4
					Treasury stock	(30,842)	-	-	-
						203,754	1	483,969	4
					Equity attributable to stockholders of the parent	9,093,102	62	9,374,296	63
					Minority interest	569,111	4	639,533	4
					<b>Total stockholders' equity (Note 7)</b>	<b>9,662,213</b>	<b>66</b>	<b>10,013,829</b>	<b>67</b>
					<b>Commitments and contingencies</b>				
<b>Total assets</b>	<b>\$ 14,468,684</b>	<b>100</b>	<b>14,750,709</b>	<b>100</b>	<b>Total liabilities and shareholders' equity</b>	<b>\$ 14,468,684</b>	<b>100</b>	<b>14,750,709</b>	<b>100</b>

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, 2011 and 2010**

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

	2011		2010	
	Amount	%	Amount	%
<b>Gross sales</b>	\$ 15,759,350	101	14,974,052	101
Less: Sales returns and allowances	(122,270)	(1)	(94,427)	(1)
<b>Net sales</b>	15,637,080	100	14,879,625	100
<b>Cost of goods sold (Note 4.4 and 5)</b>	(13,697,226)	(88)	(12,755,396)	(86)
<b>Realized gross profit</b>	1,939,854	12	2,124,229	14
<b>Operating expenses:</b>				
Selling and administrative	(1,085,716)	(7)	(1,048,344)	(7)
Research and development	(127,880)	(1)	(127,220)	(1)
	(1,213,596)	(8)	(1,175,564)	(8)
<b>Operating income</b>	726,258	4	948,665	6
<b>Non-operating income and gains:</b>				
Interest income	21,711	-	15,775	-
Dividend income	37,575	-	29,980	-
Gain on disposal of investments	152,622	1	102,864	1
Gain on foreign exchange	25,965	-	-	-
Gain on valuation of financial assets (Note 4.2 and 4.11)	-	-	38,523	-
Others	21,954	-	33,269	-
	259,827	1	220,411	1
<b>Non-operating expenses and losses:</b>				
Interest expenses (Note 4.12)	(25,725)	-	(23,443)	-
Investment loss recognized under equity method (Note 4.5)	(5,233)	-	(25,189)	-
Loss on disposal of property, plant and equipment	(2,394)	-	-	-
Loss on foreign exchange	-	-	(107,585)	(1)
Loss on impairment (Note 4.6)	(8,928)	-	-	-
Loss on valuation of financial assets (Note 4.2)	(13,932)	-	-	-
Loss on valuation of financial liabilities (Note 4.2 and 4.12)	(71,063)	-	-	-
Others	(15,945)	-	(11,671)	-
	(143,220)	-	(167,888)	(1)
<b>Consolidated income before income tax</b>	842,865	5	1,001,188	6
<b>Income tax expense (Note 4.14)</b>	(75,130)	-	(171,070)	(1)
<b>Consolidated net Income</b>	<u>\$ 767,735</u>	<u>5</u>	<u>830,118</u>	<u>5</u>
<b>Attributable to:</b>				
Stockholders of the parent gain	\$ 761,510	5	832,234	5
Minority interest gain (loss)	6,225	-	(2,116)	-
	<u>\$ 767,735</u>	<u>5</u>	<u>830,118</u>	<u>5</u>
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>income tax</b>	<b>income tax</b>	<b>income tax</b>	<b>income tax</b>
<b>Earnings per share (Note 4.16) (in NTD)</b>				
<b>Basic earnings per share</b>	<u>\$ 2.49</u>	<u>2.38</u>	<u>3.23</u>	<u>2.77</u>
<b>Diluted earnings per share</b>	<u>\$ 2.35</u>	<u>2.25</u>	<u>3.09</u>	<u>2.65</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, 2011 and 2010**

**(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	Treasury Stock		Minority Interest
<b>Balance, January 1, 2010</b>	\$ 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
Consolidated income for the twelve months ended December 31, 2010	-	-	-	832,234	-	-	-	-	(2,116)	830,118
Appropriations of prior year's earnings (Note 4.15) (Remark 1):										
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 in 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
Changes in equities of long-term investments	-	8,790	-	-	-	-	41,215	-	-	50,005
Remuneration for stock-based payment	-	24,750	-	-	-	-	-	-	-	24,750
<b>Balance, December 31, 2010</b>	<u>3,202,175</u>	<u>3,652,343</u>	<u>776,837</u>	<u>1,258,972</u>	<u>(24,681)</u>	<u>(20,223)</u>	<u>528,873</u>	<u>-</u>	<u>639,533</u>	<u>10,013,829</u>
Derecognized convertible bonds	-	(6,572)	-	-	-	-	-	-	-	(6,572)
Treasury stock buyback	-	-	-	-	-	-	-	(30,842)	-	(30,842)
Consolidated income for the twelve months ended December 31, 2011	-	-	-	761,510	-	-	-	-	6,225	767,735
Appropriations of prior year's earnings (Note 4.15) (Remark 2):										
Legal capital reserve	-	-	83,224	(83,224)	-	-	-	-	-	-
Common stock cash dividends	-	-	-	(736,500)	-	-	-	-	-	(736,500)
Change in gains and losses of available-for-sale financial assets	-	-	-	-	-	-	(181,268)	-	-	(181,268)
Change in net loss not recognized as pension cost	-	-	-	-	-	20,223	-	-	-	20,223
Change in exchange differences in foreign currency financial statements translation	-	-	-	-	56,800	-	-	-	-	56,800
Changes in minority interest	-	-	-	-	-	-	-	-	(76,647)	(76,647)
Changes in equities of long-term investments	-	(19,417)	-	-	-	-	(145,128)	-	-	(164,545)
<b>Balance, December 31, 2011</b>	<u>\$ 3,202,175</u>	<u>3,626,354</u>	<u>860,061</u>	<u>1,200,758</u>	<u>32,119</u>	<u>-</u>	<u>202,477</u>	<u>(30,842)</u>	<u>569,111</u>	<u>9,662,213</u>

Remark 1: Remuneration to directors and supervisors NT\$22,313 thousand and employee bonus NT\$119,005 thousand were deducted from income statement.

Remark 2: Remuneration to directors and supervisors NT\$21,931 thousand and employee bonus NT\$116,964 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**

**HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows  
For the years ended December 31, 2011 and 2010**

(Expressed in Thousands of New Taiwan Dollars)

	2011	2010
<b>Cash flows from operating activities:</b>		
<b>Consolidated net income</b>	\$ 767,735	830,118
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>		
Depreciation	272,244	239,912
Amortization	6,393	6,286
Allowance for doubtful accounts	1,608	2,556
Share-based payment as remuneration	-	24,750
Discount amortization on bonds payable	7,948	4,445
Loss on retirement and valuation of inventory	17,080	14,932
Investment loss accounted for using equity method	5,233	25,189
Loss (gain) on disposal of property, plant and equipment	87	(457)
Impairment loss on financial assets	-	3,834
Impairment loss on non-financial assets	8,928	-
Gain on buyback of corporate bonds	(2,858)	-
Deferred income tax expense	19,994	11,110
<b>Changes in Operating assets and liabilities:</b>		
Financial assets at fair value through profit or loss	145,484	291,294
Notes and accounts receivable	(22,299)	(525,783)
Inventories	296,805	(900,237)
Prepaid expenses and other current assets	33,601	(35,827)
Other financial assets - current	(51,258)	(9,356)
Financial liabilities at fair value through profit or loss	4,033	(34)
Notes and accounts payable	(74,783)	379,443
Payables from related parties	9,282	(1,804)
Income tax payable	(50,668)	(65,813)
Accrued expenses and other current liabilities	(21,306)	3,566
Accrued pension liabilities	1,302	826
<b>Net cash provided from operating activities</b>	<u>1,374,585</u>	<u>298,950</u>
<b>Cash flows from investing activities:</b>		
Decrease (Increase) from sale of available-for-sale financial assets	205,853	(3,953)
Acquisition of Financial assets carried at cost	-	(45,000)
Additions to Property, plant and equipment	(404,117)	(768,197)
Proceeds from sale of Property, plant and equipment	9,857	4,758
Additions to Intangible assets	(17,061)	(30,453)
Increase in Other assets	(51,229)	(8,664)
<b>Net cash used in investing activities</b>	<u>(256,697)</u>	<u>(851,509)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term loans	441,903	(19,888)
Issuance of corporate bond	-	700,000
Redemption of bonds payable	(105,663)	-
Borrowing of long-term loans	-	150,000
Repayment of long-term loans	(146,333)	(651,000)
Decrease in other liabilities	(31)	(1,857)
Cash dividends	(736,500)	(861,653)
Issuance of common stock for cash	-	1,072,504
Buyback of Treasury stock	(30,842)	-
Change in Minority interest	32,749	21,029
<b>Net cash used in financing activities</b>	<u>(544,717)</u>	<u>409,135</u>
Effect of exchange rate changes on cash and cash equivalents	70,980	(32,645)
Effect of consolidated entity changes in cash and cash equivalents	1,147	(9,239)
<b>Net increase (decrease) in cash and cash in banks</b>	645,298	(185,308)
<b>Cash and cash in banks at beginning of period</b>	2,295,905	2,481,213
<b>Cash and cash in banks at end of period</b>	<u>\$ 2,941,203</u>	<u>2,295,905</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	<u>\$ 17,777</u>	<u>16,394</u>
Income tax paid	<u>\$ 146,144</u>	<u>222,218</u>
<b>Supplemental information on non-cash investing and financing activities:</b>		
Current portion of long-term debt	<u>\$ 720,313</u>	<u>146,333</u>
Unrealized valuation loss (gain) on financial instruments - available-for-sale	<u>\$ 181,268</u>	<u>(32,709)</u>
Changes in unrealized loss (gain) on financial instruments from long-term equity investments	<u>\$ 145,128</u>	<u>(41,215)</u>
Changes in capital reserve from long-term equity investment	<u>\$ 19,417</u>	<u>(8,790)</u>
<b>Cash used in acquisition of property, plant and equipment</b>		
Acquisition of property, plant and equipment	\$ (403,613)	(796,233)
Increase (decrease) in payables on equipment	(504)	28,036
Payment in cash	<u>\$ (404,117)</u>	<u>(768,197)</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, 2011 AND 2010**

(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, 2011 and 2010, the consolidated financial statements included the accounts of the Company and its subsidiaries (hereinafter jointly referred to as the "Consolidated Companies"). The Consolidated Companies, which are classified according to their primary business activity and percentage of ownership, are as follows:

1.1 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
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
Aveo Multimedia Corporation (“Aveo”, Taiwan)	OHGA	10.00	-
Aveo Multimedia Corporation (“Aveo”, Taiwan)	Rong Jhan Investment Co., Ltd.	34.18	-
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
Everplus Material Co., Ltd. (“EPM”, 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)**

1.2 Investment and holding companies:

	Investor	Percentage of the direct and indirect ownership by the Company at December 31	
		2011	2010
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 Jhan Investment Co., Ltd. (“Rong Jhan”, Taiwan)	The Company	100.00	100.00
4. Green Glory Holdings Ltd. (“GGH”, Samoa)	HSH	100.00	100.00
5. Holypaq 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	22.59
8. HAV Co., Ltd. (“HAV”, Samoa)	Aveo	100.00	-

1.3 Wholesale of drugs and medical equipments

	Investor	Percentage of the direct and indirect ownership by the Company at December 31	
		2011	2010
1. Holy Stone Healthcare Co., Ltd. (“Holy Stone Healthcare”, Taiwan)	UHOLY	38.00	39.16
2. MDT INT’L SA (“MDT”, Switzerland)	Holy Stone Healthcare	50.00	50.00

In 2011 and 2010, 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.”

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

Zierra was dissolved in 2011 and taken out from the Consolidated Companies after November 2011.

Rong Jhan started investing in Aveo in 2011 and is included in the Consolidated Companies after April 2011.

HSH started investing in EPM in 2011 and is included in the Consolidated Companies after July 2011.

Aveo started investing in HAV in 2011 and is included in the Consolidated Companies after July 2011.

As of December 2011 and 2010, the Consolidated Companies had 1,306 and 1,318 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:

2.1 Consolidated policies

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

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.

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).

#### 2.2 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.

#### 2.3 Foreign-currency Transactions and Foreign Statement Conversion

The functional and reporting currency of consolidated entities is in Taiwan 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 Companies' foreign operating facilities and 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.

#### 2.4 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.

#### 2.5 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.

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

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.

**2.6 Financial Assets at Fair Value through Profit or Loss**

Financial instruments for the trading purposes of short-term sales and repurchase, and derivatives held by the Consolidated Companies should be classified in this category except those assigned and which are valid hedging instruments. Recognized at fair value, and any profit or loss should be recognized on the income statement. Evaluation after acquisition is based on fair value, and changes are recorded as profit or loss. Transaction date accounting is applied to purchase or sale of financial assets.

**2.7 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. During derecognition, accumulated gain or loss is recorded. Transaction date accounting is applied to purchase or sale of financial assets.

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 current earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

**2.8 Financial Assets Carried at Cost**

If there is no active market for an equity instrument and 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.

**2.9 Notes and Accounts receivables, Other Receivables**

Notes and account receivables come from selling goods and offering labor service. Other receivables come from non-operating notes and accounts receivables.

For financial assets, the Consolidated Companies first assess if the assets valued at amortized costs, with objective evidence, are impaired, and also whether the assets impaired are significant and independent, or insignificant but with common occurrences. The assets that underwent individual assess and whose impairments are being or have already been recorded do not need to undergo portfolio impairment assessment.

The impaired amount is the difference between the financial asset's book value and the future expected cash flows discounted to the present by the original effective interest rate. The book value of financial assets can be lowered by the amount in the allowance account, and impairment losses are recorded in current earnings. In determining impairment amount, the future expected cash flows should include recoverable amounts from collaterals and related insurances.

If, subsequently, impairment amount decreases with significant association with events that occurred after recognizing the impairment, reversals must not cause the financial asset's book value to exceed its amortized cost when no impairment was recognized. Reversals are recorded in current earnings.

**2.10 Inventories**

Cost of merchandise amounts to expenditure that is essential to determining the status of

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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 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 occurred.

**2.11 Long-Term Investments Accounted for Using Equity Method**

Investments in companies wherein the Consolidated Companies 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.

Starting from January 1, 2006, the difference, if any, between the cost of investment and the fair value of identifiable net assets, is handled in accordance with the revised "Accounting for Long-Term equity investments." Assets, including 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 or loss.

Gains or losses on the disposal of long-term investments are accounted as differences between their market price and carrying value on the day of disposal. If there are any capital surplus remains from long-term investments and any differences between the cost and net value of the investments, the Consolidated Companies 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 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 Consolidated Companies 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 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 in retained earnings.

**2.12 Noncurrent Asset Held for Sale**

Noncurrent asset held for sale or portfolio held for disposal means that under the current circumstances, the Consolidated Companies can immediately sale under general conditions and business practices. And the noncurrent asset or portfolio is highly likely that it can be sold or disposed within one

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year. Classified as noncurrent asset held for sale or portfolio held for disposal, the asset is to be carried at the lower of book value or net fair value. Records for further depreciation, allowance, and amortization are stopped, and listed individually on the balance sheet. Related interests and other expenses for portfolio held for disposal are recognized continually.

Impairment loss is recognized on the income statement when noncurrent asset held for sale or portfolio held for disposal has a fair value lower than its book value. If the net fair value subsequently increases, gain is to be recognized on the income statement. However, reversal amount cannot exceed the accumulated impairment amount and the amount stated according to SFAS Article No. 35 "Accounting for Impairment of Assets."

**2.13 Property, Plant and Equipment and Information on Depreciation**

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.

**2.14 Intangible assets**

Goodwill, intellectual property rights, software, and so on, are the main intangible assets. In accordance with SFAS No. 37 "Accounting for 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.

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.

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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.

#### 2.15 Convertible Bond

Convertible bonds issued by the Company create financial liability and give the holders' right to convert at the same time. According to SFAS Article No.36, "Financial Instruments: Disclosure and Presentation" stated that convertible bonds are hybrid financial instruments.

If hybrid financial instruments issued by the Company create financial liability and give holders' rights to convert at the same time, and in addition, holders are authorized to convert a said amount of common stock with a fixed sum or with other financial assets, the financial instrument should be valued at fair value during acquisition.

Calculation for the fair value of the liability component of hybrid financial instrument is similar to calculating liability in which equity component is irrelevant. The difference between the total value of hybrid financial instrument and the liability component is recognized as the equity component. Transaction cost at issuance is to be amortized as liability and equity component by the percentage of acquired value. After acquisition, unless specified to carry at fair value and to recognize changes as profit or loss, interests for the liability component of hybrid financial instrument is to be calculated by the effective interest method, and should be proportionally to the contract period as current profit or loss. The changes in fair value of equity component within a hybrid financial instrument are not recognized.

#### 2.16 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

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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, 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.

For consolidated companies operating domestically adopt a defined benefit pension plan, with December 31 as the measurement date for employee pension liabilities. When the accumulated benefit liability exceeds the fair value of pension fund assets, the excess shall be recognized on the balance sheet as minimum pension liability at net cost after valuation. Moreover, all pension curtailment and settlements are recognized as the current period’s net pension costs. For those who adopt a defined contribution pension plan, the monthly payment, in accordance with the law, is set at no lower than 6 percent of each employee’s monthly salary, transferred to their pension accounts and recognized as expense in the current period. Those who did not select a certain retirement mechanism are regulated under the pension mechanism under the Act.

For consolidated companies operating overseas, the monthly pension payment is a percentage of each employees’ monthly salary, as required by laws. The amount is also transferred to their pension accounts at the according trust banks and also recognized as pension cost. Otherwise, there are no other pension plans.

#### 2.17 Treasury Stock

According to the SFAS No.30, “Accounting for Treasury Stock”, share 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 reserve 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 reserve 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 reserve. If the carrying value of treasury stock exceeds the sum of the par and stock premium, the difference is debited to capital reserve from treasury stock. If the balance of capital reserve 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 reserve from treasury stock.

#### 2.18 Revenue Recognition

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

#### 2.19 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 Consolidated Companies were requested to record the drafted bonus paid to directors, supervisors and employees as an item under operating expense in semi-annual and annual financial reports. Any difference, between actual adopted amount determined in the shareholders’ meeting and the drafted

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one on financial statements, is recognized as an appropriation of earnings.

**2.20 Income Tax**

The Consolidated Companies recognize deferred income tax based on difference between the carrying value of assets and liabilities and the amount under 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 carry forwards. 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.

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.

**2.21 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.

**2.22 Operating Divisions**

Operating divisions are the constituent units of the Consolidated Companies. They take on operating activities that could foster revenue and also incur expenses (including revenue and expenses from inter-division trading). Operating results of each division is regularly monitored by the Consolidated Companies to determine resource distribution for that division and to evaluate its performance from their individual financial reports.

**3. Accounting Change**

3.1 Effective January 1, 2011, the Consolidated Companies adopted the newly revised SFAS No. 34, "Accounting for financial instruments." According to the revision, the existing loans and receivables shall apply to this revision regarding the announcement on loans and receivables, subsequent evaluations, and impairment. 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, 2011.

3.2 Effective January 1, 2011, the Consolidated Companies adopted the SFAS No. 41, "Disclosing operating divisions." According to this provision, companies shall disclose information that will help report readers evaluate the Consolidated Companies' operating activities, the nature of the economic environment and its financial impact. The Consolidated Companies use information provided internally to the Operating Decision

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Maker to determine the disclosed information for the operating divisions. The Consolidated Companies have disclosed information on the division in the consolidated financial report; therefore, this information will not be included in the financial report for the parent company. This provision (No.41) also replaced SFAS No.20 "Disclosure of financial information by division." Such changes in accounting principle will not have an effect on the Company's profit.

**4. Accounts Statement**

4.1 Cash and Cash Equivalents

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Cash on hand	\$ 2,961	2,509
Current deposit	2,194,300	1,922,597
Checking account	12,192	67,010
Deposit account	731,750	303,789
	<u>\$ 2,941,203</u>	<u>2,295,905</u>

4.2 Financial Instrument

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

	<u>12.31.2011</u>	<u>12.31.2010</u>
Foreign stocks	\$ 70,408	32,228
Bonds	255,316	253,981
Open-ended funds	10,629	134,119
Foreign exchange swap contracts	-	30,315
Foreign currency forward contracts	-	4,216
Right to call or put - Convertible bonds payable	-	26,978
Total	<u>\$ 336,353</u>	<u>\$ 481,837</u>

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

	<u>12.31.2011</u>	<u>12.31.2010</u>
Foreign currency forward contracts	\$ 53	-
Foreign exchange swap contracts	107	-
Right to call or put - Convertible bonds payable	3,873	-
	<u>\$ 4,033</u>	<u>-</u>

Financial assets and liabilities recognized at fair value through profit or loss – current as of December 31, 2011 and 2010 was NT(\$53,780) thousand and \$82,231 thousand.

Derivatives are hedging instruments to avoid exchange risks and interest risks from operating, financing, and investing activities. As of December 31, 2011 and 2010, details of derivatives not applied to hedging accounting are as follows:

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i. Foreign exchange swap contracts

<b>12.31.2011</b>			<b>12.31.2010</b>		
<b>Principal(USD)</b>	<b>Term</b>		<b>Principal(USD)</b>	<b>Term</b>	
\$ 2,900,000	2011.12.29~2012.01.17		8,740,000	2010.12.21~2011.01.04	
9,400,000	2011.12.29~2012.01.17		2,500,000	2010.12.21~2011.01.04	
3,200,000	2011.12.29~2012.01.17		5,400,000	2010.12.21~2011.01.04	
5,340,000	2011.12.29~2012.01.17		1,800,000	2010.12.21~2011.01.04	
-	2011.12.29~2012.01.17		2,900,000	2010.12.21~2011.01.04	
-	2011.12.29~2012.01.17		3,200,000	2010.12.21~2011.01.04	
-			2,200,000	2010.12.21~2011.01.04	
<b><u>\$ 20,840,000</u></b>			<b><u>26,740,000</u></b>		

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 Consolidate Companies 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.

ii. Foreign currency forward contracts

	<b>12.31.2011</b>		
	<b>Notional Principal</b>	<b>Currency</b>	<b>Expiry Date</b>
Sales of foreign currency forward contracts	USD 400	USD to NTD	12.16.2011~01.13.2012
Sales of foreign currency forward contracts	USD 700	USD to NTD	11.10.2011~01.09.2012
Sales of foreign currency forward contracts	USD 500	USD to NTD	11.22.2011~01.09.2012
Sales of foreign currency forward contracts	USD 500	USD to NTD	11.23.2011~02.09.2012
Sales of foreign currency forward contracts	USD 600	USD to NTD	12.13.2011~02.09.2012
Sales of foreign currency forward contracts	USD <u>700</u>	USD to NTD	12.29.2011~03.09.2012
Total	<b>USD <u>3,400</u></b>		

	<b>12.31.2010</b>		
	<b>Notional Principal</b>	<b>Currency</b>	<b>Expiry Date</b>
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

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Sales of foreign currency forward contracts	USD	400	USD to NTD	12.31.2010~02.11.2011
Sales of foreign currency forward contracts	USD	<u>600</u>	USD to NTD	12.31.2010~04.11.2011
Total	USD	<u><b>7,080</b></u>		

4.2.3 Available-for-sale financial assets - noncurrent

	<u>12.31.2011</u>	<u>12.31.2010</u>
GSI TECHNOLOGY INC. (GSIT)	\$ 82,425	205,359
eGalax_eMPIA Technology Inc. (EETI)	352,584	649,543
INPAQ Technology Co., Ltd. (INPAQ)	<u>74,447</u>	<u>316,702</u>
Total	<u><b>\$ 509,456</b></u>	<u><b>1,171,604</b></u>

4.2.4 Financial assets carried at cost - noncurrent

	<u>12.31.2011</u>	<u>12.31.2010</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	7,494
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>45,000</u>
Total	<u><b>\$ 550,060</b></u>	<u><b>550,060</b></u>

4.3 Notes and Accounts Receivable

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Notes receivable	\$ 96,648	168,228
Accounts receivable	3,716,207	3,618,695
Less: Allowance for collectible accounts	<u>(69,409)</u>	<u>(64,168)</u>
	<u><b>\$ 3,743,446</b></u>	<u><b>3,722,755</b></u>

As of December 31, 2011 and 2010, Notes and accounts receivable of the Consolidated Companies were not discounted or offered as collateral

Current notes and accounts receivable with short expiry period of the Consolidated Companies were not discounted, and the carrying amounts were assumed to approximate fair value.

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Allowances for notes and accounts receivables are as follows:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Beginning balance	\$ 67,974	74,203
Bad debt for current period	1,608	2,556
Write-offs for current period	(711)	-
Consolidated effect of change	-	(16,232)
Net exchange difference from overseas operating units' financial report	<u>538</u>	<u>7,447</u>
Ending balance	<u><u>\$ 69,409</u></u>	<u><u>67,974</u></u>

4.4 Inventories

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Merchandise	\$ 1,491,504	1,614,070
Less: Allowance	<u>(101,399)</u>	<u>(103,823)</u>
Subtotal	<u>1,390,105</u>	<u>1,510,247</u>
Finished goods	374,234	398,953
Less: Allowance	<u>(25,210)</u>	<u>(22,715)</u>
Subtotal	<u>349,024</u>	<u>376,238</u>
Semi-finished goods	117,548	138,638
Less: Allowance	<u>(18,668)</u>	<u>(11,208)</u>
Subtotal	<u>98,880</u>	<u>127,430</u>
Work in process	152,761	155,697
Less: Allowance	<u>(6,054)</u>	<u>(2,699)</u>
Subtotal	<u>146,707</u>	<u>152,998</u>
Raw materials	264,550	397,569
Less: Allowance	<u>(2,731)</u>	<u>(3,341)</u>
Subtotal	<u>261,819</u>	<u>394,228</u>
Supplies	5,043	4,264
Less: Allowance	<u>(95)</u>	<u>(37)</u>
Subtotal	<u>4,948</u>	<u>4,227</u>
Total	<u><u>\$ 2,251,483</u></u>	<u><u>2,565,368</u></u>

For the years ended December 31, 2011 and 2010, the Consolidated Companies recognized related losses on inventories of NT\$16,229 thousand and NT\$11,039 thousand, respectively, which include changes on inventories of NT\$6,703 thousand in 2011 from the write-up of net realizable value and losses on inventories charged. For 2010, there was a decrease in operating expense of NT\$18,918 thousand from the offset of previous inventory net realizable value that was lower than cost.

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4.5 Long-term Equity Investments

	<b>12.31.2011</b>			
<b><u>Investee Company</u></b>	<b><u>% of Ownership</u></b>	<b><u>Investment Cost</u></b>	<b><u>Carrying Amount</u></b>	<b><u>2010 Loss on Investment</u></b>
Valuation at equity:				
Holygene Corporation	29.79%	<b><u>\$ 41,903</u></b>	<b><u>(11,513)</u></b>	<b><u>(25,189)</u></b>
Details:				

4.5.1 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." The Consolidate Companies have not acquired Holygene's new shares by the percentage owned in May 2011, so the share percentage dropped from 29.00 to 19.63, losing power to impact the company. In accordance with SFA No. 34 "Accounting for financial instruments, the book value during adjustment, NT(\$16,860) thousand, was recognized under "Other Liabilities." In 2011, investment loss under equity method included a loss of NT(\$5,233) thousand.

4.5.2 The increase in capital reserve from equity adjustment of investees in 2010 was NT\$9,329 thousand.

4.5.3 In December 31, 2010, long-term equity investments have not provided pledge collaterals.

4.6 Noncurrent assets held for sale

Details:

	<b>12.31.2011</b>
Machinery and equipment	\$ 66,656
Less: Accumulated depreciation	(27,728)
Accumulated impairment	(8,928)
	<b><u>\$ 30,000</u></b>

The Consolidated Companies has made the decision in December 2011 to sell part of its machinery and equipment, expected completion within one year. The above assets were classified as noncurrent asset held for sale in December 31, 2011. The net fair value below book value, NT\$8,928 thousand, was included under "impairment loss" in 2011.

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4.7 Property, plant and equipment

4.7.1 Property, plant and equipment provided by the Consolidated Companies as collaterals for bank loans, please refer to Notes 6.

4.7.2 Details on assets leased to others of the Consolidated Companies as of December 31, 2011 and 2010 are summarized as follows:

	<u>12.31.2011</u>	<u>12.31.2010</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>(4,871)</u>	<u>(4,503)</u>
	<b><u>\$ 42,697</u></b>	<b><u>43,065</u></b>

4.8 Intangible assets

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
<b>Original cost:</b>			
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, 2010	<b><u>\$ 521,292</u></b>	<b><u>85,532</u></b>	<b><u>606,824</u></b>
Balance at January 1, 2011	\$ 521,292	85,532	606,824
Additions	-	17,061	17,061
Foreign currency translation	<u>13,922</u>	<u>(25,920)</u>	<u>(11,998)</u>
Balance at December 31, 2011	<b><u>\$ 535,214</u></b>	<b><u>76,673</u></b>	<b><u>611,887</u></b>
<b>Amortization:</b>			
Balance at January 1, 2010	\$ -	5,928	5,928
Amortization	-	3,914	3,914
Foreign currency translation	-	129	129
Balance at December 31, 2010	<b><u>\$ -</u></b>	<b><u>9,971</u></b>	<b><u>9,971</u></b>
Balance at January 1, 2011	\$ -	9,971	9,971
Amortization	-	5,010	5,010
Foreign currency translation	-	<u>(1,671)</u>	<u>(1,671)</u>
Balance at December 31, 2011	<b><u>\$ -</u></b>	<b><u>13,310</u></b>	<b><u>13,310</u></b>
<b>Book value:</b>			
Balance at January 1, 2010	<b><u>\$ 557,580</u></b>	<b><u>48,527</u></b>	<b><u>606,107</u></b>
Balance at December 31, 2010	<b><u>\$ 521,292</u></b>	<b><u>75,561</u></b>	<b><u>596,853</u></b>
Balance at January 1, 2011	<b><u>\$ 521,292</u></b>	<b><u>75,561</u></b>	<b><u>596,853</u></b>
Balance at December 31, 2011	<b><u>\$ 535,214</u></b>	<b><u>63,363</u></b>	<b><u>598,577</u></b>

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4.9 Idle Assets

	<u>12.31.2011</u>	<u>12.31.2010</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>

4.10 Short-term Loans

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Secured loans	\$ -	259,150
Unsecured loans	<u>1,696,007</u>	<u>994,954</u>
Total	<u>\$ 1,696,007</u>	<u>1,254,104</u>
Interest rate	<u>0.66%~1.40%</u>	<u>0.583%~1.63%</u>

As of December 31, 2011 and 2010, the Consolidated Company's credit lines on short-term loans which have not been used from financial institutions were NT\$3,208,322 thousand and NT\$2,986,421 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.

4.11 Long-term Liabilities

Details:

<u>Creditor</u>	<u>Line of Credit and Key Terms</u>	<u>12.31.2011</u>	<u>12.31.2010</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.	\$ 219,500	365,833
Taiwan Corporative Bank, Jhanghe 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	150,000
	Subtotal	<u>369,500</u>	<u>515,833</u>
	Less: Current portion	<u>(152,450)</u>	<u>((146,333))</u>
		<u>\$ 217,050</u>	<u>369,500</u>

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

4.11.2 The aforementioned interests are paid in floating interest rate, with an approximation of 1.3002 percent to 1.520 percent and 0.920 percent to 1.520 percent in 2011 and 2010, respectively.

4.11.3 As of December 31, 2011 and 2010, long-term loans not be used by the Consolidated Companies were both NT\$0.

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4.11.4 As of December 31, 2011, the loan balance should be paid as follows:

<u>Period</u>	<u>Amount</u>
01.01.2012~12.31.2012	\$ 152,450
01.01.2013~12.31.2013	83,780
01.01.2014~12.31.2014	10,775
01.01.2015~12.31.2015	10,939
01.01.2016~12.31.2016	11,106
01.01.2017 onwards	<u>100,450</u>
	<b><u>\$ 369,500</u></b>

4.12 Bonds Payable

Details:

	<u>12.31.2011</u>	<u>12.31.2010</u>
Total proceeds from issuing convertible bonds	\$ 593,200	700,000
Discount in bonds payable	(25,337)	(38,136)
Less: Current portion	<u>(567,863)</u>	<u>-</u>
Balance of bonds payable at the end of period	<b><u>\$ -</u></b>	<b><u>661,864</u></b>
Derivative financial instrument—redemption (buy) and sell (financial assets included in gains or losses in fair value – current)	<b><u>\$ (3,873)</u></b>	<b><u>26,978</u></b>
Equity components (included in capital reserve-options)	<b><u>\$ 95,986</u></b>	<b><u>113,267</u></b>
	<u>12.31.2011</u>	<u>12.31.2010</u>
Derivative financial instrument—redemption (buy) and sell (Change in fair value recorded as evaluation loss)	<b><u>\$ 31,215</u></b>	<b><u>43,708</u></b>
Interest Expense	<b><u>\$ 7,948</u></b>	<b><u>4,445</u></b>

Third issuance of domestic unsecured convertible bond has an interest rate at issuance of 0% at NT\$43.50, 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 August 16, 2011, the convertible price is NT\$37.12.

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4.13 Pension Plan

4.13.1 Pension Funds by Actuarial method:

i. Reconciliation of funded status of the plan and accrued pension cost at December 31, 2011 and 2010.

	<u>12.31.2011</u>	<u>12.31.2010</u>
Benefit obligation:		
Vested benefit obligation	\$ (14,917)	(14,390)
Nonvested benefit obligation	(55,308)	(92,567)
Accumulated benefit obligation	(70,225)	(106,957)
Additional benefits based on future salaries	(8,486)	(17,132)
Projected benefit obligation	(78,711)	(124,089)
Fair value of plan assets	84,894	80,225
Funded status	6,183	(43,864)
Unrecognized net transition obligation	(13,993)	37,355
Unrecognized net loss	-	(20,223)
Accrued pension cost	<u>\$ (7,810)</u>	<u>(26,732)</u>

ii. Components of net periodic pension cost are as follows:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 2,086	2,193
Interest cost	2,792	2,568
Actual return on plan assets	(1,805)	(1,697)
Unamortized pension	1,919	1,558
Net periodic pension cost	<u>\$ 4,992</u>	<u>4,622</u>

iii. Actuarial assumptions are as follows:

	<u>2011</u>	<u>2010</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%

4.13.2 In 2011 and 2010, the Consolidated Companies' domestic subsidiaries have adopted the actuarial pension funds by contributing NT\$26,537 thousand and NT\$25,891 thousand, respectively.

4.13.3 In 2011 and 2010, the Consolidated Companies' foreign subsidiaries have, in accordance with their laws, contributed NT\$15,551 thousand and NT\$10,754 thousand, respectively, as pension.

4.14 Income Tax

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

4.14.2 The components of income tax for the years ended December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Current income tax expense	\$ 55,136	159,960
Deferred income tax expense (benefit)	19,994	11,110
Income tax expense	<u>\$ 75,130</u>	<u>171,070</u>

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The components of deferred income tax expense (benefit) for the years ended December 31, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Unrealized loss (gain) on foreign exchange, net	\$ 18,216	(7,433)
Unrealized loss on investment, net	1,097	9,540
Loss (gain) for market price decline and obsolete and slow-moving inventories	(935)	3,164
Valuation Allowance- current changes in deferred income tax assets	5,043	5,601
Effect of change in income tax rate on deferred income tax	-	1,810
Others	<u>(3,427)</u>	<u>(1,572)</u>
	<u><b>\$ 19,994</b></u>	<u><b>11,110</b></u>

4.14.3 Consolidated Companies' domestic subsidiaries would be subject to income tax rate of 17%, calculated by the basis tax amount according to the "Income Tax Act." The components of deferred income tax expense (benefit) for the years ended December 31, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Estimated income tax expense calculated based on financial income before income tax	\$ 183,966	196,488
Gain on disposal of marketable securities	(16,747)	(2,657)
Effect of change in income tax rate	-	1,810
Tax-exempt income and investment tax credits	(81,208)	(14,610)
10% surtax on undistributed earnings	1,265	4,458
Permanent differences	(17,114)	(9,082)
Valuation Allowance- current changes in deferred income tax assets	5,043	5,601
Others	<u>(75)</u>	<u>(5,337)</u>
	<u><b>\$ 75,130</b></u>	<u><b>176,671</b></u>

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4.14.4 The components of deferred income tax assets (liabilities) as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Deferred income tax assets – current:		
Provision for inventory obsolescence	\$ 22,528	21,592
Provision for bad debt in excess	3,411	4,746
Unrealized loss on foreign exchange, net	-	10,798
Others	2,984	799
Less: valuation allowance	-	<u>(553)</u>
Net deferred income tax assets – current	28,923	37,382
Deferred income tax liabilities – current:		
Unrealized gain on foreign exchange, net	<u>(7,418)</u>	-
Net deferred income tax liabilities – current	<u>\$ 21,505</u>	<u>37,382</u>
Deferred income tax assets – noncurrent:		
Unrealized loss on investment, net	\$ 17,144	12,113
Loss carryforwards	12,392	8,825
Cumulative translation adjustments	-	5,055
Others	12,508	12,472
Less: valuation allowance	<u>(38,601)</u>	<u>(32,041)</u>
Net deferred income tax assets – noncurrent	<u>3,443</u>	<u>6,424</u>
Deferred income tax liabilities – noncurrent:		
Long-term investment income under equity method	(40,779)	(34,652)
Cumulated translation adjustments	<u>(6,579)</u>	-
Deferred income tax liabilities – noncurrent	<u>(47,358)</u>	<u>(34,652)</u>
Net deferred income tax liabilities – noncurrent	<u>\$ (43,915)</u>	<u>(28,228)</u>

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

4.14.5 Some of the Company’s products comply with the incentives stated as “From July 1, 2008 to December 31, 2009, companies within manufacturing and related technology services industries with new investments can receive 5-year tax exempt benefits.” Therefore, the Company has a 5-year tax benefit with the exemption period ending at the end of 2015.

4.14.6 In accordance to provisions to promote industrial upgrades and “Tax credits applicable to companies investing in rural areas with poor resources or slow development,” the Company received the benefit to offset income tax payable in profit-seeking enterprise. The amount estimated for the tax benefits according to the investment amount in 2011 totaled NT\$68,873 thousand.

4.14.7 According to the Statute for Industrial Innovation, investment allowance of R&D expense can be applied to income tax for profit-seeking enterprise, with the allowance not exceeding 30% of the total operating income tax. For the year 2011, the investment allowance is NT\$11,949 thousand.

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4.14.8 The tax authorities have examined income tax returns of the Company through 2008.

4.14.9 The integrated income tax system:

	<b>12.31.2011</b>	<b>12.31.2010</b>
Unappropriated earnings after 1997	<b>\$ 1,200,758</b>	<b>1,258,972</b>
Imputation credit account (ICA) balance	<b>\$ 105,248</b>	<b>171,397</b>
	<b>2011 (Expected)</b>	<b>2010 (Actual)</b>
Actual/ estimated creditable ratio for earnings distribution	<b>9.60%</b>	<b>22.27%</b>

4.15 Stockholders' Equity

4.15.1 Common Stock and Stock Issuances

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, 2011 and 2010, 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 for both years were issued as capital.

4.15.2 Treasury stock

- i. In 2011, in compliance with the Securities Exchange Act Section 28-1, the Company bought back common stock of 863 thousand shares to transfer to employees. As of December 31, 2011, number of shares not transferred totaled 863 thousand shares.
- ii. According to the Securities Exchange Act, the proportion of the Company's shares buyback cannot exceed 10% of the total issued shares; the total amount to buyback shares cannot exceed the sum of retained earnings plus premium on shares and realized capital reserve. The amount of shares the Company buyback for the period is a few thousand, totaling NT\$30,842 thousand, which is in compliance to the Securities Exchange Act. December 31, 2010 as the record date, the Company's upper limit of shares to buy back is 32,022 thousand shares, and the corresponding amount totaled NT\$4,798,637 thousand. Up till December 31, 2011, the Company's buyback in treasury stock was 863 thousand shares, and the amount totaled NT\$30,842 thousand.
- iii. According to Holy Stone's Articles of Incorporation, the Company's treasury stock, also end of period book value of treasury stock in retained earnings, is not allowed for the distribution of dividends.
- iv. According to the Securities Exchange Act, the Company's treasury stock is not to be pledged, and before transfer/sale, shall not be entitled to shareholders' rights.

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4.15.3 Capital Surplus

As of December 31, 2011 and 2010, the components of capital surplus are as follows:

	<u>12.31.2011</u>	<u>12.31.2010</u>
From cash capital increase	\$ 1,687,890	1,687,890
From convertible bonds	1,463,082	1,463,082
From bond options	95,986	113,267
From treasury stock	11,133	424
From Merger	144,225	144,225
From employees stock option	188,297	188,297
From employees' bonus	15,410	15,410
From long-term equity investment	20,331	39,748
	<u>\$ 3,626,354</u>	<u>3,652,343</u>

According to the revised Articles of Incorporation in 2012, realized capital surplus could only be transferred to common stock or applied to cash dividend payment after deducting the accumulated deficit, if any. Realized capital surplus stated above included premium from issuing stock and donated assets received. According to the provisions for Offering and Issuance of Securities, capital for annual appropriation in capital surplus shall not exceed 10 percent of the paid-in capital.

4.15.4 Legal Reserve

According to the revised Articles of Incorporation in 2012, 10 percent of the annual earnings shall be allocated as legal reserve until accumulated legal reserve equals the issued common stock. When the Company does not have any earnings, shareholders will approve whether to distribute new shares or cash from legal reserve during shareholders' meeting, but the reserve must exceed paid-in capital by 25 percent.

4.15.5 Special Reserve

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

4.15.6 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;

- i. Pay income taxes as required by law.
- ii. Offset accumulated deficits from previous years.
- iii. Allocate 10 percent to capital reserve, unless capital reserve has reached total paid-in capital.
- iv. Allocate a portion to special capital reserve, as required by government regulations.
- v. The surplus remaining after deduction of items i. to iv. should be allocated to the directors, supervisors and employees as follow:
  - (i.) Remuneration for directors and supervisors should not exceed 3 percent.
  - (ii.) Employee bonuses should be no less than 7 percent.

If employee bonuses are distributed as stocks, these employees must be qualified according to the

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requirements composed by the board or his/her authorized personnel.

- vi. The surplus remaining after deductions of items i. to v. could be distributed to the shareholders after the resolution is approved in the shareholders' meeting.

For the years ended December 31, 2011 and 2010, 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 2011 and 2010, bonuses to employees were NT\$105,693 thousand and NT\$116,964 thousand, respectively, and remunerations to directors and supervisors were NT\$19,818 thousand and NT\$21,931 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 the distributed year.

The appropriation of 2010 and 2009 earnings was approved at the shareholders' meetings on June 10, 2011 and June 14, 2010, respectively as follows:

	<b>2010</b>	<b>2009</b>
Employee bonuses-stock	\$ 117,000	119,005
Directors' and supervisors' remuneration	22,000	22,313
	<b>\$ 139,000</b>	<b>141,318</b>

The 2009 appropriation of earnings did not differ from the resolutions approved by the Company's board of directors. The 2010 appropriation of earnings differed from the resolutions approved by the board in NT\$ NT\$105 thousand, recognized as changes in accounting estimate and reported on the income statement of 2011. The difference was caused because of needs of future business development, production equipment expansion, and operating funds adjustment.

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

**4.15.7 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.

**4.15.8 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

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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, 2011 (NTD)	Issuing Way
2006 1 <sup>st</sup> ESO Plan	07.10.2006	1	5,000,000	08.21.2006	1,500,000	\$ 49.3	31.40	In turns
"		-	-	06.15.2007	3,500,000	58.5	38.70	"
2007 1 <sup>st</sup> ESO Plan	11.11.2007	1	10,000,000	12.03.2007	10,000,000	50.0	35.40	One time

The aforementioned exercise prices have 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.

As of December 31, 2011, 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 <sup>st</sup> 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
2007 1 <sup>st</sup> ESO Plan	10,000,000	10,000,000	-	-	10,000,000	12.03.2007~12.02.2017
Total	<b>\$ 15,000,000</b>	<b>15,000,000</b>	-	-	<b>15,000,000</b>	

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 adjusted 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:

- i. No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2011 and 2010 since market value of stock at measurement date was equal to exercise price.
- ii. Had the Company used the fair value method to evaluate the options granted, relevant information would have been disclosed as follows:
  - (i) 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 for both 2011 and 2010. Assumptions used to estimate the fair value of the aforementioned employee stock options are summarized as follows:

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	<u>2007 1<sup>st</sup> ESO Plan</u>	<u>2006 1<sup>st</sup> ESO Plan</u>	<u>2006 1<sup>st</sup> 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

(ii) A summary of the ESO plans is as follows:

<u>Stock Option</u>	<u>2011</u>		<u>2010</u>	
	<u>Unit (in thousands)</u>	<u>Weighted-average exercise price (NT\$)</u>	<u>Unit (in thousands)</u>	<u>Weighted-average exercise price (NT\$)</u>
Outstanding balance at the beginning of period	15,000	\$ 38.27	15,000	\$ 41.78
Option granted	-	-	-	-
Options exercised	-	-	-	-
Option expired	-	-	(1,049)	-
Outstanding balance at the end	<u>15,000</u>	38.27	<u>15,000</u>	38.27
Exercisable number at the end	<u>10,500</u>	35.93	<u>7,125</u>	38.20
Exercisable number at the end	<u>-</u>	-	<u>-</u>	-

(iii) As of December 31, 2011, details of outstanding options of the ESO plans are as follows:

<u>Exercise price (NT\$)</u>	<u>Outstanding stock options as of Dec. 31, 2011</u>			<u>Vested options</u>	
	<u>Units</u>	<u>Remaining vesting period</u>	<u>Exercise price (NT\$)</u>	<u>Units as of 12.31.2011</u>	<u>Exercise price (NT\$)</u>
\$ 31.40	1,500,000	0.64	\$ 31.40	1,500,000	\$ 31.40
38.70	3,500,000	1.45	38.70	3,500,000	38.70
35.40	10,000,000	5.93	35.40	5,500,000	35.40

(iv) 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:

		<u>2010</u>	<u>2009</u>
Net income	Net income as reported	\$ 761,510	832,234
	Pro forma net income	761,510	832,234
Basic earnings per share (NT Dollars)	Basic EPS as reported	2.38	2.77
	Pro forma basic EPS	2.38	2.77

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4.16 Earnings per Share

The Company's basic earnings per share and diluted earnings per share of 2011 and 2010 were computed as follows:

	2011		2010	
	Before income tax	After income tax	Before income tax	After income tax
<b>Basic EPS</b>				
Net income	\$ 795,489	761,510	970,691	832,234
Weighted average number of shares outstanding (in thousand)	319,599	319,599	300,779	300,779
<b>Basic EPS ( NT Dollars)</b>	<b>\$ 2.49</b>	<b>2.38</b>	<b>3.23</b>	<b>2.77</b>
<b>Diluted EPS</b>				
Net income	\$ 795,489	761,510	970,691	832,234
Effect of dilution on potential common stock – convertible bonds	7,948	7,948	4,445	4,445
Diluted EPS-net income	<b>\$ 803,437</b>	<b>769,458</b>	<b>975,136</b>	<b>836,679</b>
Weighted-average number of shares outstanding (in thousands)	319,599	319,599	300,779	300,779
Expensing employee bonus	5,678	5,678	4,513	4,513
Employee stock options	24	24	731	731
Domestic convertible bond	17,250	17,250	9,252	9,252
Diluted EPS- weighted-average number of shares outstanding (in thousand)	<b>342,551</b>	<b>342,551</b>	<b>315,275</b>	<b>315,275</b>
<b>Diluted EPS (NT Dollars)</b>	<b>\$ 2.35</b>	<b>2.25</b>	<b>3.09</b>	<b>2.65</b>

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4.17 Additional Disclosure on Financial Instruments

4.17.1 Fair value information

As of December 31, 2011 and 2010, the fair value of the Consolidated Companies' financial assets and liabilities is as follows:

	12.31.2011		12.31.2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 2,941,203	2,941,203	2,295,905	2,295,905
Financial assets at fair value through profit or loss - current:				
Notes and accounts receivable	336,353	336,353	481,837	481,837
Other financial assets - current	3,743,446	3,743,446	3,722,755	3,722,755
Available-for-sale financial assets - noncurrent	216,974	216,974	165,716	165,716
Financial assets carried at cost - noncurrent	509,456	509,456	1,171,604	1,171,604
	550,060	Note	550,060	Note
Financial liabilities:				
Short-term loans	1,696,007	1,696,007	1,254,104	1,254,104
Financial liabilities at fair value through profit or loss - current:				
Notes and accounts payable (including related parties)	4,033	4,033	-	-
Bonds payable (current portion)	1,556,126	1,556,126	1,621,627	1,621,627
Long-term borrowing (including current portion)	567,863	567,863	661,864	661,864
	369,500	369,500	515,833	515,833

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.

4.17.2 The following methods and assumptions are used to estimate the fair value of financial instruments:

- i. 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.
- ii. 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.
- iii. The fair value of bonds payable was based on their quoted market price. If the market price is unavailable, the fair value would be based on the market stated price.
- iv. The fair value of long-term borrowings approximates their carrying amount due to floating interest rate.

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4.17.3. 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:

	12.31.2011		12.31.2010	
	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	\$ -	2,941,203	-	2,295,905
Financial assets at fair value through profit or loss-current:	336,351	-	420,328	61,509
Notes and accounts receivable	-	3,743,446	-	3,722,755
Other financial assets - current	-	216,974	-	165,716
Available-for-sale financial assets - noncurrent	509,451	-	1,171,604	-
Financial liabilities:				
Short-term loans	-	1,696,007	-	1,254,104
Financial liabilities at fair value through profit or loss-current:	-	4,033	-	-
Notes and accounts payable (including related parties)	-	1,556,126	-	1,621,627
Bonds payable (current portion)	-	567,863	-	661,864
Long-term borrowing (including current portion)	-	369,500	-	515,833

4.17.4 Information about financial risks

i. 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.

ii. Credit risk

The Consolidated Companies' potential credit risk is derived primarily from cash and cash equivalents, equity investments, and financial instruments' 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.

iii. Liquidity risk

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

iv. Cash flow risk resulting from change in interest rates

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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 as of December 31, 2011, the change in interest expense would have been NT\$20,655 thousand.

**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 2011 and 2010, and the transaction remainders as of December 31, 2011 and 2010 are as follows:

5.2.1 Purchases

	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>% of net purchases</u>	<u>Amount</u>	<u>% of net purchases</u>
	EETI	<u>\$ 99,724</u>	<u>0.78</u>	<u>60,596</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.

5.2.2 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>12.31.2011</u>		<u>12.31.2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Notes and accounts payable:				
EETI	<u>\$ 23,026</u>	<u>1.48</u>	<u>13,744</u>	<u>0.85</u>

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5.3 Main Managers' Remuneration

Details on remuneration paid to directors, supervisors, president, and vice presidents in 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Salaries	\$ 45,147	46,010
Cash awards and special allowances	394	992
Expense of execution	1,920	1,920
Employees' bonus	19,200	30,800

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

**6. Pledged Assets**

As of December 31, 2011 and 2010, 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>12.31.2011</u>	<u>12.31.2010</u>
Time deposits (recognized as the other financial assets-current)	Line of credit and secured by customs service	\$ 49,230	91,123
Land	Short-term loans	156,522	232,413
Buildings	"	<u>69,314</u>	<u>75,735</u>
Total		<u>\$ 275,066</u>	<u>399,271</u>

**7. Commitments and Contingencies**

As of December 31, 2011 and 2010, the Consolidated Companies' outstanding letters of credit, which facilitate the Consolidated Companies' purchase of materials, amounted to NT\$639,284 thousand and NT\$443,685 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	2011			2010		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personal Costs							
Payroll		331,575	626,647	958,222	358,588	598,996	957,584
Labor and health		41,901	46,539	88,440	39,310	38,170	77,480
Pension expense		20,052	27,028	47,080	19,689	21,578	41,267
Other (Note)		20,913	11,814	32,727	24,836	12,366	37,202
Depreciation		238,590	33,654	272,244	205,105	34,807	239,912
Amortization		5	6,388	6,393	55	6,231	6,286

Note: Including meal expenses and training expenses.

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

	12.31.2011		12.31.2010		
	Foreign Currency	Rate	Foreign Currency	Rate	
<u>Financial Assets</u>					
<u>Currency-related items</u>					
USD	\$	179,282	30.275	174,749	29.13
EUR		31	39.18	433	38.92
HKD		13,050	3.897	10,567	3.748
JPY		309,883	0.3906	187,429	0.3582
CHF		1,141	32.175	201	31.07
<u>Noncurrency-related items</u>					
USD		333	30.275	4,405	29.13
HKD		2,636	3.897	4,868	3,748
<u>Financial Liabilities</u>					
<u>Noncurrency-related items</u>					
USD		97,583	30.275	58,396	29.13
JPY		412,816	0.3906	258,242	0.3582

10.3 Reclassification

Figures of 2010 consolidated financial statements were reclassified properly in order to match those of 2011 consolidated financial statements.

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10.4 As required by the Financial Supervisory Commission, Executive Yuan, listed OTC companies and emerging companies are to prepare for financial reports according to FSC approved IFRS, IAS, explanations and interpretations (hereinafter referred to as IFRSs). In response to the amendment, the Company has designated a project team to follow the adoption plan. This project is lead by Yu-Min Wu, Vice President, and the expected completion schedule and current execution are as follows:

Detailed Plan	Implementation department	Current implmentation
1.Evaluation period (01.01.2010~12.31.2011) :		
⊙ Establish IFRS adoption plan and designate project team	Accounting department, Business units, IT department, Internal Control department	Completed
⊙ Conduct internal employee training (first phase)	Accounting department	Completed
⊙ Compare and analyse the difference between current accounting policy and IFRSs	Accounting department	Completed
⊙ Assess adjustments to be made to the current accounting policy	Accounting department	Completed
⊙ Assess the applicability of "First time adoption of IAS" bulletin	Accounting department	Completed
⊙ Assess adjustments to be made to related information system and internal control	Accounting department, Business units, IT department, Internal Control department	Completed
2.Preparation period (01.01.2011~12.31.2012) :		
⊙ Decide the adjustments to be made to the current accounting policy based on IFRSs	Accounting department	Completed
⊙ Decide the application of "First time adoption of IAS" bulletin	Accounting department	Completed
⊙ Adjust related information system and internal control	Accounting department, Business units, IT department, Internal Control department	Completed
⊙ Conduct internal employee training (second phase)	Accounting department	Completed
3.Execution period(01.01.2012~12.31.2013) :		
⊙ Test relevant information systems on their operability	Accounting department, Business units, IT department, Internal Control department	In progress
⊙ Collect information from beginning date in preparation for balance sheet and comparative financial statements according to IFRSs	Accounting department	In progress
⊙ Prepare financial statements according to IFRSs	Accounting department	In progress

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10.5 Significant differences between the two accounting policies through the Company's current assessment are as follows:

Accounting Issues	Significant Difference
Employee benefits – Defined pension plan after retirement	By using the actuarial techniques to measure the defined pension plan after retirement, the result is affected by various assumptions. Regarding the discount rate, according to the current accounting policy, it is either based on the long-term average rate of return for the pension fund or the implied interest rate on insurance companies' annuity contracts; according to IFRSs, the aforementioned discount rate is yield adopted from high-quality corporate bonds as reference or from government bonds.
Employee benefits – Holiday benefits	The current accounting policy does not have related provisions regulating accumulated paid leave. After adopting IFRSs, if employees' leave entitlements are accumulated leave with pay, it should be recognized when future holiday benefits increase.
Share-based payment transactions	Before January 1, 2008, the embedded value method to recognize employees' paid cost; after adopting IFRSs, it should be based on the fair value method and recognized related compensation cost.

10.6 The Company used the IFRSs approved by the Financial Supervisory Commission for the above assessments. However, the significant differences between the two accounting policies are assessed using the current environment and situation and are subject to change depending on the environment and situations.

**11. Additional Disclosures**

11.1 Significant Transaction Information

In 2011, the additional disclosures required by the Regulations Governing the Preparation of Financial Report are as follows:

11.1.1 Financing to related parties: None.

11.1.2 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 (Note 1)	Highest Quotas of Endorsement/ Guarantee (Note 1)	Remarks
		Company	Nature of Relationships							
0	The Company	Martek Co., Ltd.	Subsidiary	1,818,620	20,000	20,000	-	0.22%	4,546,551	Note 2
0	The Company	Holy Stone Holding Co., Ltd.	Subsidiary	-	32,000	-	-	-	-	Note 2
0	The Company	Holy Stone Polytech Co., Ltd..	Subsidiary	1,818,620	198,750	195,300	-	2.15%	4,546,551	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.

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11.1.3 Marketable securities held:

Unit: Thousand shares

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Highest ownership within period		Note
				Shares (unit)	Shares (unit)	Percentage of Ownership	Carrying Value	Shares (unit)	Percentage of Ownership	
The Company	AMVIG	-	Financial assets at fair value through profit or loss - current - foreign stock	408	6,551	-	6,551	-	-	-
The Company	DIRXDLY 7-10Y	-	Financial assets at fair value through profit or loss - current - foreign stock	1	829	-	829	-	-	-
The Company	ISHARES MSCI GERMANY INDEX	-	Financial assets at fair value through profit or loss - current - foreign stock	6	3,491	-	3,491	-	-	-
The Company	TIAN POWER	-	Financial assets at fair value through profit or loss - current - foreign stock	100	1,363	-	1,363	-	-	-
The Company	D-Link Corporate Bond C	-	Financial assets at fair value through profit or loss - current - bond	200	20,000	-	20,000	-	-	-
The Company	Everlight Corporate Bond D	-	Financial assets at fair value through profit or loss - current - bond	100	20,000	-	20,000	-	-	-
The Company	SerComm Corporate Bond C	-	Financial assets at fair value through profit or loss - current - bond	800	83,232	-	83,232	-	-	-
The Company	Aces Corporate Bond A	-	Financial assets at fair value through profit or loss - current - bond	300	30,300	-	30,300	-	-	-
The Company	AVC Corporate Bond A	-	Financial assets at fair value through profit or loss - current - bond	200	20,604	-	20,604	-	-	-
The Company	Tung Thih Corporate Bond A	-	Financial assets at fair value through profit or loss - current - bond	200	20,000	-	20,000	-	-	-
The Company	Giantplus Corporate Bond B (81052)	-	Financial assets at fair value through profit or loss - current - bond	10	868	-	868	-	-	-
The Company	Mega Holdings Exchangeable Bond (288601)	-	Financial assets at fair value through profit or loss - current - bond	260	25,298	-	25,298	-	-	-
The Company	Win Semiconductor (3105)	-	Financial assets at fair value through profit or loss - current - bond	150	4,410	-	4,410	-	-	-
The Company	Cathay Hong Kong and Taiwan Fund	-	Financial assets at fair value through profit or loss - current - open-ended fund	978	7,155	-	7,155	-	-	-
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of the Company	Long-term equity investment	11,500	177,347	100.00	177,347	11,500	100.00	Note
The Company	Holy Stone Holdings Co., Ltd. Stock	Subsidiary of the Company	Long-term equity investment	26,976	991,303	100.00	993,114	26,976	100.00	Note
The Company	UHOLY Investments Co., Ltd. Stock	Subsidiary of the Company	Long-term equity investment	22,500	422,039	57.69	420,660	22,500	100.00	Note
The Company	Taiwan Mahk Opt Co., Ltd. Stock	Subsidiary of the Company	Long-term equity investment	8,500	146,169	100.00	146,169	8,500	100.00	Note
The Company	Rong Jhan Investments Co., Ltd. Stock	Subsidiary of the Company	Long-term equity investment	45,000	575,968	100.00	575,968	45,000	100.00	Note
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets - noncurrent	582	82,425	-	82,425	-	-	-
The Company	eGalax_eMPIA Technology Inc. Stock	-	Available-for-sale financial assets - noncurrent	260	15,384	-	15,384	-	-	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	Financial assets carried at cost - noncurrent	7,500	300,000	-	300,000	-	-	-

Note: Have been eliminated while filing consolidated financial statements.

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11.1.4 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 Money Market Fund	Financial assets at fair value through profit or loss-current	-	-	-	-	74,834	1,040,000	74,834	1,041,009	1,040,000	1,009	-	-	-
The Company	Mega Diamond Money Market Fund	"	-	-	-	-	93,226	1,120,000	93,226	1,121,600	1,120,000	1,600	-	-	-
The Company	Cathay Taiwan Money Market Fund	"	-	-	-	-	25,020	300,000	25,020	300,327	300,000	327	-	-	-
The Company	Fuh Hwa Benefit Fund	"	-	-	-	-	51,343	665,000	51,343	665,743	665,000	743	-	-	-
The Company	KGI Victory Fund	"	-	-	-	-	8,989	100,000	8,989	100,135	100,000	135	-	-	-
The Company	Hua Nan Fung Cheung Money Market Fund	"	-	-	-	-	33,878	530,000	33,878	530,579	530,000	579	-	-	-
The Company	Hua Nan Kirin Money Market Fund	"	-	-	-	-	17,331	200,000	17,331	200,245	200,000	245	-	-	-
The Company	Taishin 1699 Money Market	"	-	-	-	-	51,180	665,000	51,180	665,681	665,000	681	-	-	-
The Company	Taishin Public Money Market	"	-	-	-	-	32,926	450,000	32,926	450,225	450,000	225	-	-	-
The Company	KGI at thirty	"	-	-	-	-	-	550,000	-	550,801	550,000	801	-	-	-

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

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

11.1.7 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	1,244,550	9.47%	Next month-end 120 days	-	-	459,385	12.98%	Note
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	Sales	1,241,527	9.44%	Next month-end 150 days	-	-	570,220	16.12%	Note
The Company	Infotech (CHINA) Co., Ltd.	Subsidiary of H.S.I	Sales	382,219	2.91%	Month-end 120 days	-	-	135,627	3.83%	Note
The Company	Holy Stone Polytech Co., Ltd.	Subsidiary of Holy Stone Holdings	Purchases	243,041	2.25%	Month-end 45 days	-	-	(38,002)	2.89%	Note

Note: Have been eliminated while filing consolidated financial statements.

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11.1.8 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	459,385	2.49	-	-	72,786	-	Note
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Subsidiary of H.S.I	570,220	2.58	-	-	106,168	-	Note
The Company	Infortech (CHINA) Co., Ltd.	Subsidiary of H.S.I	135,627	3.11	-	-	-	-	Note

Note: Have been eliminated while filing consolidated financial statements.

11.1.9 Derivatives transaction:

Please refer to Financial Statements Notes 4.2 and 4.12 to get the Company's derivatives transaction information in 2011.

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

Related information on investee companies of 2011 is as follows:

11.2.1 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, 2011			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Relationship with the Company	Note
				Dec. 31, 2011	Dec. 31, 2010	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%	177,347	9,729	9,729	Subsidiary of the Company	Note
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	991,303	21,193	26,316	Subsidiary of the Company	Note
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	422,039	49,471	28,544	Subsidiary of the Company	Note
The Company	Martek Co., Ltd.	Taipei City	Electric appliances, precision instrument, computers and	20,000	20,000	8,500	100.00%	146,169	44,767	44,767	Subsidiary of the Company	Note
The Company	Rong Jhan Investments Co., Ltd.	Taipei City	Investment activities	340,000	340,000	45,000	100.00%	575,968	50,739	50,739	Subsidiary of the Company	Note
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 8,717,449	USD 616,177	USD 616,177	Subsidiary of Holy Stone Holdings	Note
Holy Stone Holdings	Holypaq Corporation	Cayman	Investment activities	USD 1,200,000	USD 1,200,000	1,200	100.00%	USD 285,215	USD 49,164	USD 49,164	Subsidiary of Holy Stone Holdings	Note
Holy Stone Holdings	Green Glory Holdings Ltd.	Samoa	Investment activities	USD 2,140,624	USD 2,140,624	2,210	100.00%	USD 1,536,275	USD 47,131	USD 47,131	Subsidiary of Holy Stone Investments Co., Ltd	Note
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 16,620,440	USD 1,648,729	USD 1,648,729	Subsidiary of Holy Stone Holdings Co., Ltd.	Note
Holy Stone Holdings	Holy Stone Polytech Co., Ltd	Japan	Electronics manufacturing and retailing, electro-mechanical appliances and electrical machinery materials, and sales	JPY 483,000,000	JPY 483,000,000	4,830	98.57%	USD 5,170,908	JPY (77,958,256)	USD (968,227)	Subsidiary of Holy Stone Holdings Co., Ltd.	Note
Holy Stone Holdings	Everplus Material Co., Ltd.	Japan	Electronics manufacturing and retailing, electro-mechanical appliances and electrical machinery materials, and sales	JPY 350,000,000	-	3,500	100.00%	USD 4,283,111	JPY (17,975,917)	USD (226,497)	Subsidiary of Holy Stone Holdings Co., Ltd.	Note
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 5,501,600	CNY 162,883	USD 25,312	Subsidiary of Holy Stone Investments Co., Ltd.	Note
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 3,181,224	CNY 3,805,550	USD 591,382	Subsidiary of Holy Stone Investments Co., Ltd.	Note
Infortech (China) Co., Ltd.	Zierra (Wuhan) Electronic Tech Co, Ltd.	China	Electronic components selling	-	CNY 1,500,000	-	-	-	CNY (228,531)	CNY (228,531)	Subsidiary of Infortech (CHINA)	Note

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Holypaq 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 263,074	CNY 346,020	USD 53,772	Subsidiary of Holypaq Corporation	Note
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 862,975	CNY 59,788	USD 9,291	Subsidiary of Green Glory Holdings	Note
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 413,756	USD 56,206	USD 56,206	Subsidiary of Green Glory Holdings	Note
Green Glory Holdings	Holy Stone (Europe) Ltd.	England	Electronic retailing and trading	USD 686,873	USD 686,873	350	100.00%	USD 240,593	GBP (10,939)	USD (17,541)	Subsidiary of Green Glory Holdings	Note
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co., Ltd.	Taipei City	Western medicine wholesaling and medical instruments wholesaling	94,107	64,505	8,967	38.00%	49,407	(24,591)	(10,191)	UHOLY's long-term investee recognized under equity method	Note
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%	CHF 30,794	CHF 121,922	3,063	Subsidiary of Holy Stone Healthcare Co., Ltd.	Note
Holy Stone Healthcare Co., Ltd.	Global Search Holdings Ltd.	Samoa	Investment activities	USD 150,000	USD 150,000	150	100.00%	USD 4,441	(875)	(26)	Subsidiary of Holy Stone Healthcare Co., Ltd.	Note
Rong Jhan Investments Co.	OHGA Electronics Co., Ltd.	Taipei County	Electronic appliances and audio-visual electronics manufacturing	332,640	332,640	15,120	70%	416,241	67,412	48,563	Subsidiary of Rong Jhan Investments Co., Ltd.	Note
Rong Jhan Investments Co.	Aveo Multimedia Corporation	Taipei County	Electronic components manufacturing	34,180	-	3,418	34.18%	27,786	(6,889)	(6,889)	Subsidiary of Rong Jhan Investments Co., Ltd.	Note
OHGA Electronics Co., Ltd.	Aveo Multimedia Corporation	Taipei County	Electronic components manufacturing	10,000	-	1,000	10.00%	8,477	(16,676)	(1,523)	Subsidiary of Rong Jhan Investments Co., Ltd.	Note
Aveo Multimedia Corporation	HAV Co., Ltd.	Samoa	Investment activities	USD 1,200,000	-	1,500	100.00%	USD 27,376	USD (595,755)	(17,510)	Subsidiary of Aveo Multimedia Corporation	Note

Note: Have been eliminated while filing consolidated financial statements.

**11.2.2 Financing to related parties:**

Unit: Thousand of NT\$

No.	Lender	Borrower	Subject	Maximum balance	Lending balance	Actual transaction balance	Interest rate	Character	Transaction amount	Necessity of short-term financing	Allowance for doubtful accounts	Collateral		Limitations to individual borrower	Total limitations	Note
												Item	Value			
1	Holy Stone Polytech Co., Ltd	Holy Stone Holding Co	Other receivables	18,165	18,165	18,165	2.00%	Necessary for short	-	Operation turnover	-	-	-	15,884	63,536	Note 2
2	Holy Stone Enterprise (H.K) Co., Ltd.	Holy Stone Holding Co	Other receivables	45,413	45,413	45,413	1.80%	Necessary for short	-	Operation turnover	-	-	-	9,093,102	9,093,102	Note 2
3	Holy Stone Holding Co.	Infortech (China) Co., Ltd.	Other receivables	63,578	75,688	63,578	2.20%	Necessary for short	-	Operation turnover	-	-	-	9,093,102	9,093,102	Note 2
3	Holy Stone Holding Co.	Holy Stone International trading (Shanghai) Co., Ltd.	Other receivables	-	90,285	-	-	Necessary for short-term financing	-	Operation turnover	-	-	-	9,093,102	9,093,102	Note 2

Note 1: Financing to related parties is limited to 40 percent of the Company's net worth; the maximum amount to finance a single company is 10% of the Company's net worth; the foreign companies which the Company owns 100% voting shares are not limited from net worth restrictions (parent company's net worth).

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

**11.2.3 Endorsement/guarantee provided: None.**

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11.2.4 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, 2011				Highest Ownership within period		Remarks
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	Shares (units)	% of Ownership	
Holy Stone Holdings Co., Ltd.	Holy Stone Investments Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	6,900	USD 8,717,449	100.00	USD 8,717,449	6,900	100.00	-
Holy Stone Holdings Co., Ltd.	Holypaq Corporation Stocks	Subsidiary of H.S.H	Long-term equity investment	1,200	USD 285,215	100.00	USD 285,215	1,200	100.00	Note
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,210	USD 1,536,275	100.00	USD 1,536,275	2,210	100.00	Note
Holy Stone Holdings Co., Ltd.	Mayatek Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,500	USD 16,620,440	100.00	USD 16,620,440	2,500	100.00	Note
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	4,830	USD 5,170,908	98.57	JPY 406,654,758	4,830	98.57	Note
Holy Stone Holdings Co., Ltd.	Everplus Material Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	3,500	USD 4,283,111	100.00	JPY 332,024,083	3,500	100.00	Note
Holy Stone Investments Co., Ltd.	Holy Stone international trading (Shanghai) Co., Ltd. Equity	Subsidiary of H.S.I	Long-term equity investment	4,010	USD 5,501,600	100.00	CNY 34,644,838	4,010	100.00	Note
Holy Stone Investments Co., Ltd.	Infortech (CHINA) CO., LTD. Equity	Subsidiary of H.S.I	Long-term equity investment	2,100	USD 3,181,224	100.00	CNY 20,032,899	2,100	100.00	Note
Holypaq Corporation	HolyPAQ (Dongguan) Corporation Equity	Subsidiary of Holypaq Corporation	Long-term equity investment	1,000	USD 263,074	100.00	CNY 1,656,635	1,000	100.00	Note
Green Glory Holdings Ltd.	Infortech International Trading (Shanghai) Ltd. Equity	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	1,000	USD 862,975	100.00	CNY 5,434,349	1,000	100.00	Note
Green Glory Holdings Ltd.	Milestone Global Technology Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	500	USD 413,756	100.00	USD 413,756	500	100.00	Note
Green Glory Holdings Ltd.	Holystone (Europe) Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	350	USD 240,593	100.00	GBP 155,875	350	100.00	Note
Holy Stone Enterprise (H.K) Co.	Bearer Glencore International AG	-	Financial assets at fair value through profit or loss - current - foreign stock	5	USD 29,804	-	HKD 231,573	-	-	-
Holy Stone Enterprise (H.K) Co.	ISHARES MSCI Germany Index Fund	-	Financial assets at fair value through profit or loss - current - open-ended fund	6	USD 114,720	-	USD 114,720	-	-	-
UHOLY Investments Co. Ltd.	Taiwan Hon Chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current - domestic stock	115	6,417	-	6,417	-	-	-
UHOLY Investments Co. Ltd.	Tainan Enterprises Co., Ltd.	-	Financial assets at fair value through profit or loss - current - domestic stock	70	2,471	-	2,471	-	-	-
UHOLY Investments Co. Ltd.	Kianshen Corporation	-	Financial assets at fair value through profit or loss - current - domestic stock	16	614	-	614	-	-	-
UHOLY Investments Co. Ltd.	Kung Long Batteries Ind. Co., Ltd.	-	Financial assets at fair value through profit or loss - current - domestic stock	50	2,050	-	2,050	-	-	-
UHOLY Investments Co. Ltd.	Nishoku Technology Inc.	-	Financial assets at fair value through profit or loss - current - domestic stock	429	25,311	-	25,311	-	-	-
UHOLY Investments Co. Ltd.	Win Semiconductors Corp	-	Financial assets at fair value through profit or loss - current - domestic stock	50	1,470	-	1,470	-	-	-
UHOLY Investments Co. Ltd.	Holy Stone Healthcare Co. Ltd. Stocks	Subsidiary of UHOLY Investments Co. Ltd.	Long-term equity investment	8,967	49,407	38.00	49,407	8,967	38.00	Note
UHOLY Investments Co. Ltd.	EETI Stocks	-	Available-for-sale financial assets - noncurrent	5,696	337,200	-	337,200	-	-	-
UHOLY Investments Co. Ltd.	INPAQ Technology Co., Ltd. Stocks	-	Available-for-sale financial assets - noncurrent	4,124	74,447	-	74,447	-	-	-
UHOLY Investments Co. Ltd.	Innovation Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	8,900	89,000	-	89,000	-	-	-
UHOLY Investments Co. Ltd.	C2 MICROSYSTEMS INC. Preferred stocks	-	Financial assets carried at cost - noncurrent	1,500	29,809	-	29,809	-	-	-
UHOLY Investments Co. Ltd.	Zelltek Technology Corp. Stocks	-	Financial assets carried at cost - noncurrent	859	19,757	-	19,757	-	-	-
UHOLY Investments Co. Ltd.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent	599	2,994	-	2,994	-	-	-
UHOLY Investments Co. Ltd.	Innostone Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	5,900	59,000	-	59,000	-	-	-

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Highest Ownership within period		Remarks
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	Shares (units)	% of Ownership	
Holy Stone Healthcare Co.	Holygene Corporation Stocks	-	Financial assets carried at cost - noncurrent	1,266	(16,860)	-	(16,860)	-	-	-
Holy Stone Healthcare Co.	MDT INT'L SA Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	1,275	30,796	50.00	CHF 1,069,353	1,275	50.00	Note
Holy Stone Healthcare Co.	Global Search Holdings Ltd. Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	150	4,496	100.00	USD 147,522	150	100.00	Note
Rong Jhan Investments Co.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent	150	4,500	-	4,500	-	-	-
Rong Jhan Investments Co.	Grand Fortune Securities Co., Ltd Stocks	-	Financial assets carried at cost - noncurrent	5,000	45,000	-	45,000	-	-	-
Rong Jhan Investments Co.	OHGA Electronics Co., Ltd. Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	15,120	416,241	70.00	416,241	15,120	70.00	Note
Rong Jhan Investments Co.	Aveo Multimedia Corporation	-	Long-term equity investment	3,418	27,786	34.18	27,786	3,418	34.18	Note
Rong Jhan Investments Co.	Taiwan Hon Chuan Enterprise Co., Ltd.	-	Financial assets at fair value through profit or loss - current - domestic stock	160	8,928	-	8,928	-	-	-
Rong Jhan Investments Co.	EETI Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	0.3	15	-	15	-	-	-
Rong Jhan Investments Co.	Win Semiconductors Corp	-	Financial assets at fair value through profit or loss - current - domestic stock	340	9,996	-	9,996	-	-	-
OHGA Electronics Co., Ltd.	Aveo Multimedia Corporation Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	1,000	8,477	10.00	8,477	1,000	10.00	Note
OHGA Electronics Co., Ltd.	ASW Sercomm C	-	Financial assets at fair value through profit or loss - current - bond	100	10,404	-	10,404	-	-	-
OHGA Electronics Co., Ltd.	ASW Aces A	-	Financial assets at fair value through profit or loss - current - bond	200	20,200	-	20,200	-	-	-
Aveo Multimedia Corporation	HAV Co., Ltd. Stocks	Subsidiary of Aveo Multimedia Corporation	Long-term equity investment	1,200	27,376	100.00	USD 904,245	1,200	100.00	Note

Note: Have been eliminated while filing consolidated financial statements.

**11.2.5 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				Evaluation (Loss) Gain	End of Period	
					Shares (Units)	Value	Shares (Units)	Value	Shares (Units)	Price	Carrying Cost	Gain or Loss on Disposal		Shares (Units)	Value
UHOLY Investments Co. Ltd.	Fuh Hwa Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	3,846	53,171	4,611	64,000	8,457	117,419	117,171	248	-	-	-
Martek Co., Ltd.	Fuh Hwa Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	14,982	208,000	14,982	208,193	208,000	193	-	-	-
Martek Co., Ltd.	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	10,130	122,000	10,130	122,129	122,000	129	-	-	-

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

**11.2.7 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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11.2.8 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	1,244,550	99.77%	Next month-end 120 days	-	-	(459,385)	98.03%	-
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Subsidiary of H.S.I	Purchases	1,241,527	90.35%	Next month-end 150 days	-	-	(570,220)	89.12%	-
Infortech (CHINA) CO., LTD.	The Company	Subsidiary of H.S.I	Purchases	382,219	98.74%	Month-end 120 days	-	-	(135,627)	92.01%	-
Holy Stone Polytech Co., Ltd.	The Company	Subsidiary of H.S.H	Sales	243,041	43.74%	Month-end 45 days	-	-	38,002	21.34%	-

11.2.9 Receivables from related parties amounted to at least NT\$100 million or 20% of the paid-in capital:

None.

11.2.10 Derivatives transaction:

Investee Companies' Derivatives Transaction in 2011:

No.	Company Name	Derivative	Nominal Principal (thousand)	Term	Fair Value
1	Martek Co.	Forward Foreign Exchange Contract	USD 400	12.16.2011~01.13.2012	4
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 700	11.10.2011~01.09.2012	(73)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	11.22.2011~01.09.2012	(19)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	11.23.2011~02.09.2012	12
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 600	12.13.2011~02.09.2012	(26)
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 700	12.29.2011~03.09.2012	49

Investee companies recognized financial assets at fair value through profit or loss – current of NT\$3,079 thousand in 2011.

11.3 Information on Investment in Mainland China

11.3.1 Status of investment

Unit: US\$

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method	Accumulated Remittance as of Dec. 31, 2011	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, 2011
					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 25,312	USD 5,501,600	-
HolyPAQ (Dongguan) Corporation	Capacitors manufacturing and selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100 %	USD 53,772	USD 263,074	-
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 9,291	USD 862,975	-
Infortech (CHINA) CO., LTD.	Electronic components selling	USD 2,100,000		USD 2,100,000	-	-	USD 2,100,000	100 %	USD 591,382	USD 3,181,224	-

Note 1: Excluding US\$400,000 of capitalized profits.

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

11.3.2 Quota of investment in Mainland China

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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 ) 233,420	(USD 8,110,000 ) 245,530	5,455,861

11.3.3 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 Note 11.2 of investee company information.

11.4 Significant transaction between parent and subsidiaries:

2011:

No. (note 1)	Name	counterparty	Relation-ship (Note 2)	Transaction status			
				Subject	Amount	Condition	% of consolidated net sales or consolidated total assets
0	The Company	Holy Stone Hong Kong	1	Sales	1,236,766	Next month-end 120 days	7.96%
0	The Company	Holy Stone Hong Kong	1	Accounts receivable	540,892	Next month-end 120 days	3.18%
0	The Company	Holy Stone Shanghai	1	Sales	1,017,209	Next month-end 150 days	7.94%
0	The Company	Holy Stone Shanghai	1	Accounts receivable	393,528	Next month-end 150 days	3.94%
0	The Company	Infortech	1	Sales	406,307	Month-end 120 days	2.44%
0	The Company	Infortech	1	Accounts receivable	110,471	Month-end 120 days	0.94%
1	HPC	The Company	2	Sales	253,565	Month-end 45 days	1.55%
1	HPC	The Company	2	Accounts receivable	30,194	Month-end 45 days	0.26%

2010:

No. (note 1)	Name	counterparty	Relation-ship (Note 2)	Transaction status			
				Subject	Amount	Condition	% of consolidated net sales or consolidated total assets
0	The Company	Holy Stone Hong Kong	1	Sales	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%

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.

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**12. Segment Financial Information**

The Consolidate Companies' operating units and adjustments are as follows:

**12.1 General Information**

The Consolidated Company consists of two reported sectors: the Electronics sector and the Investment sector. The Electronics sector is involved in the development, design, manufacturing and sales of electronics related industries. The Investment sector is involved in professional investment businesses.

**12.2 Information on the reported sectors' profit and loss, sector assets, liabilities, measurement basis and regulations**

The Consolidated Company has not allocated income tax expense or non-frequent profit and loss to the reported sectors. In addition, not all the profit or loss from the reported sectors includes significant non-cash items other than depreciation and amortization. The reported amount and the report used by operating decision makers are identical.

The accounting policies adopted by the Consolidated Companies are the same as the dominant accounting policies. Profit and loss of the operating sectors are measured by operating income, and it is used as the basis for performance assessment. Inter-company sales and transfers are treated as transactions with third parties; therefore, current market prices are used.

The Consolidated Companies operating units' information and adjustments are as follows:

<b>2011</b>	<b>Electronics sector</b>	<b>Investment sector</b>	<b>Adjustments and Elimination</b>	<b>Consolidated</b>
Income:				
Income from external customers	\$ 11,806,154	3,830,926	-	15,637,080
Inter-company income	2,882,222	293,792	(3,176,014)	-
Interest income	9,957	12,053	(299)	21,711
Total income	<u>\$ 14,698,333</u>	<u>4,136,771</u>	<u>(3,176,313)</u>	<u>15,658,791</u>
Interest expense	<u>\$ 19,586</u>	<u>6,438</u>	<u>(299)</u>	<u>25,725</u>
Sector profit and loss	<u>\$ 861,027</u>	<u>136,810</u>	<u>(154,972)</u>	<u>842,865</u>
Sector Assets	<u>\$ 11,360,261</u>	<u>4,345,680</u>	<u>(1,237,257)</u>	<u>14,468,684</u>
Sector Liabilities	<u>\$ 4,256,471</u>	<u>1,786,823</u>	<u>(1,236,823)</u>	<u>4,806,471</u>

<b>2010</b>	<b>Electronics sector</b>	<b>Investment sector</b>	<b>Adjustments and Elimination</b>	<b>Consolidated</b>
Income:				
Income from external customers	\$ 13,161,097	1,718,528	-	14,879,625
Inter-company income	1,256,099	1,746,201	(3,002,300)	-
Interest income	10,456	5,835	(516)	15,775
Total income	<u>\$ 14,427,652</u>	<u>3,470,564</u>	<u>(3,002,816)</u>	<u>14,895,400</u>
Interest expense	<u>\$ 19,758</u>	<u>4,274</u>	<u>(589)</u>	<u>23,443</u>
Sector profit and loss	<u>\$ 1,063,744</u>	<u>141,562</u>	<u>(204,118)</u>	<u>1,001,188</u>
Sector Assets	<u>\$ 11,824,533</u>	<u>4,033,421</u>	<u>(1,105,876)</u>	<u>14,750,709</u>
Sector Liabilities	<u>\$ 4,513,279</u>	<u>1,325,290</u>	<u>(1,101,689)</u>	<u>4,736,880</u>

Inter-company sales deductible from consolidated revenue for 2011 and 2010 are NT\$3,176,313 and NT\$3,002,816.

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

12.3 Product information

Information on income from external customers is as follows:

<u>Product type</u>	<u>2011</u>	<u>2010</u>
Passive Components	\$ 5,458,963	5,503,199
Active Components	2,957,008	2,568,299
System and Modules	2,717,783	3,029,401
Others	<u>4,503,326</u>	<u>3,778,726</u>
Total	<u>\$ 15,637,080</u>	<u>14,879,625</u>

12.4 Sales area information

Information on sales area is as follow, in which income is based on the location of the customer, and for noncurrent assets the income is based on the location of the assets.

Income from external customers:

<u>Area</u>	<u>2011</u>	<u>2010</u>
China	\$ 10,813,222	10,226,149
Taiwan	3,314,938	3,367,167
United States	645,665	626,999
Others	<u>863,255</u>	<u>659,310</u>
Total	<u>\$ 15,637,080</u>	<u>14,879,625</u>

Noncurrent assets:

<u>Area</u>	<u>2011</u>	<u>2010</u>
Taiwan	\$ 3,128,356	3,035,797
China	506,583	492,114
Others	<u>170,096</u>	<u>142,224</u>
Total	<u>\$ 3,805,035</u>	<u>3,670,135</u>

12.5 Important customers information

Consolidated sales to customers representing more than 10% of revenue are as follows:

	<u>2011</u>	
	<u>Net revenue</u>	<u>% of net revenue</u>
Customer C	\$ <u>2,501,737</u>	<u>1,705,904</u>

**Holy Stone Enterprise Co., Ltd.**

**Chairman: Jing-Rong Tang**