



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

TWSE: 3026

2012 Annual Report

Printed on May 17, 2013

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

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

1. Company Spokesman, Acting Spokesman, title and contact information

Company Spokesperson

Name: Steven Huang
Title: Director
Tel: 886-2-2627-0383
E-mail: stevenhuang@holystone.com.tw

Deputy Spokesperson

Name: Sherry Wu
Title: Vice President
Tel: 886-2-2627-0383
E-mail: sherrywu@holystone.com.tw

2. Headquarters, Branch Offices, and Factories

Headquarters: 1F, No.62, Sec. 2, Huanshan Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.) Tel: 886-2-2627-0383

Yilan Office: No.15, Sec. 2, Ligong 1st Rd., Letzer Industrial Park, Wujie Township, Yilan County 268, Taiwan (R.O.C.) Tel: 886-3-499-5288

Factories: No.56, No.61, No. 61-1, Lane 90, Gong 5th Rd., Wushulin Industrial Park, Longtan Shiang 325, Taoyuan County, Taiwan (R.O.C.) Tel: 886-3-499-5288

No.15, Sec. 2, Ligong 1st Rd., Letzer Industrial Park, Wujie Township, Yilan County 268, Taiwan (R.O.C.) Tel: 886-3-499-5288

3. Institution Handling Stock Transfer Service

Company: ChinaTrust Commercial Bank, Transfer Agency Department
Address: 5F, No.83, Sec. 1, Chongqing S. Rd., Taipei City 100, Taiwan (R.O.C.)
Web Site: <http://www.chinatrust.com.tw/>
Tel: 886-2-2181-1911

4. Certified Public Accountants Auditing Financial Statements during recent years

Auditor: Ching-Sung Wang and Chia-Hsin Chang
Company: KPMG
Address: 68F, No.7, Sec. 5, Xinyi Rd., Taipei City 110, Taiwan (R.O.C.) (Taipei 101)
Web Site: <http://www.kpmg.com.tw>
Tel: 886-2-8101-6666

5. Foreign Securities Trade & Exchange

No foreign securities is issued by the Company.

6. Company Web Site

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

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1. Letter to Shareholders

Dear Shareholders,

OVERALL OPERATING ENVIRONMENT (COMPETITION AND LEGAL ENVIRONMENTS)

Since the global economic crisis two years ago, major economies such as the United States, European Union, Japan and China still struggled for growth in 2012. Taiwan, an export country, could not avoid being affected. The PC industry experienced the most significant change. The market for computers declined rapidly, and, in its place, the market for mobile devices boomed (smart phones and tablets). Overall, the majority of Taiwanese companies were affected differently, while only a few benefited.

OPERATING RESULTS

Holy Stone's consolidated revenue for 2012 totaled NT\$14.6 billion, a 6.6% decrease from 2011. Whereas gross profit was NT\$1.87 billion (gross margin of 12.8%), a 3.7% decrease from 2011; and operating income was NT\$649 million (operating margin of 4.4%), a decrease of 10.7% from 2011. Net income totaled NT\$655 million (profit margin of 4.5%), a decrease of 14.0% from last year. Earnings per share decreased 13.9% to NT\$2.05. In addition, there is NT\$119 million remaining for estimated capital expenditure.

BUSINESS PLAN FOR 2013

Affected by downstream industry changes and overseas competition, Holy Stone had invested heavily in establishing the process of manufacturing materials in-house, the automation of equipments, and the development of high-end materials, all in the aim to meet demands in the dynamic market. These results have already surfaced in the first quarter of 2013. The proportion of self-manufactured materials within MLCC has increased from quarter to quarter. LED lighting substrate also experienced growth in different sales region. In 2013, the phase of lightings renewal, there will be substantial growth in both production amount and value, contributing to sales and profit.

For system integration solution products, we have gained customer approvals on all areas including power-saving lighting systems, automotive electronic systems, industrial control systems, and wireless communication systems, etc. Looking forward to 2013, external environment is expected to be better than that in 2012, and the Company will have better sales and profit results.

CORPORATE DEVELOPMENT

For Years, Holy Stone Group's diversification can be shown through our good standing in electronic industry and continuous development in green components and systems products. We have also entered into the biomedical industry with the aim to develop biotechnology products with great potential and to strengthen our foundation of sustainable operation. Holy Stone will continue to fulfill our responsibilities in corporate sustainability, maximizing our value towards employees, shareholders, customers, and other related bodies.

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.

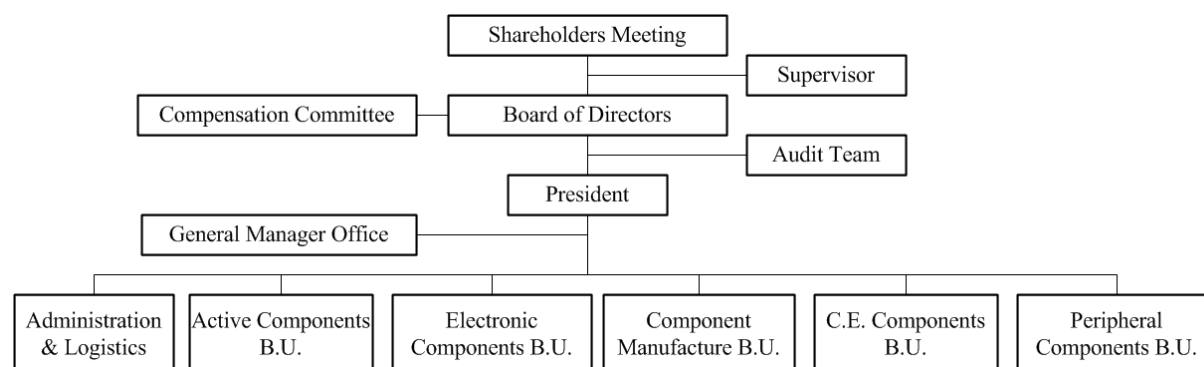
2.2. Milestone:

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. Organization 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
- Logistics Department: import and export declaration, storage and delivery management

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

3.2.1 Information on Directors and Supervisors

Title	Name	Date Elected	Term	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & children of minor age Shareholding	
					Shares	%	Shares	%	Shares	%
Chairman & President	Jing-Rong Tang	2012.06.05	3 years	1997.09.09	11,592,549	3.62	11,592,549	3.62	2,394,972	0.75
Director	Lin Tan Investment Co., Ltd.	2012.06.05	3 years	2003.05.28	14,707,623	4.59	14,707,623	4.59	-	-
Representative of Lin Tan Investment Co., Ltd.	Chyang Lo (Note 2)	2012.06.05	3 years	2010.01.01	2,405	-	2,405	-	4,795	-
Representative of Lin Tan Investment Co., Ltd.	Yu-Min Wu (Note 2)	2012.06.05	3 years	1999.04.23	1,165,292	0.36	1,165,292	0.36	17,939	0.01
Director & Executive Vice President	Shih-Yun Sheng	2012.06.05	3 years	1997.09.09	4,445,567	1.39	4,445,567	1.39	2,595,921	0.81
Director & Executive Vice President	Shao-Kuo Huang	2012.06.05	3 years	2006.06.09	2,569,292	0.80	2,569,292	0.80	733,538	0.23
Independent Director	Ken-Yi Cheng	2012.06.05	3 years	2003.05.28	-	-	-	-	-	-
Independent Director	Nai-Hua Wu	2012.06.05	3 years	2004.05.28	-	-	-	-	-	-
Supervisor	Tang-Ming Wu	2012.06.05	3 years	1999.04.23	943,764	0.29	943,764	0.29	-	-
Supervisor	Chung-Yi Yang	2012.06.05	3 years	1999.04.23	725,186	0.23	725,186	0.23	-	-
Supervisor	J.S. Chen (Note 3)	2009.06.16	3 years	2009.06.16	-	-	-	-	-	-

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

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

Note 3: The reelection of all directors and supervisors in the Shareholders' Meeting on 5th June, 2012 retired this supervisor.

Major shareholders of Representative of institutional shareholders as of 2013.04.16

Director acting as representative of institutional shareholders	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 shareholders of Shareholders that are institutional shareholders as of 2013.04.16

Shareholders that are institutional shareholders	Major Shareholders
Kai Shen Investment Co., Ltd.	Li-Fang Chang
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 2013.04.16

Shareholding by Nominees		Principal Work Experience and Academic Qualifications	Position(s) held concurrently in the Company and/or in any 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 institutional shareholder, eGalax_eMPIA Technology Inc.	-	-	-
-	-	-	-	-	-	-
-	-	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, eGalax_eMPIA Technology Inc. Representative of institutional shareholder, Infortech (China) Co., Ltd.	-	-	-
-	-	Bachelor, Department of Physics, Tamkang University Doctoral in Management, Macau University of Science and Technology	Representative of institutional shareholder and President, Infortech (China) Co., Ltd Representative of institutional shareholder, Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
-	-	Bachelor, Business Management, Tatung University	Representative of institutional shareholder, Infortech 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 and President, Grand Fortune Securities Co., Ltd. Director, Wintech Microelectronics Co., Ltd. Director, Solytech Enterprise Co. Representative of institutional shareholder, Leader Electronics Co. Supervisor, Foxlink Image Technology 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.	Chairman, Instant-Dict Co., Ltd	-	-	-
-	-	Bachelor, Accounting, Fu Jen Catholic University	Head Accountant, Honesty CPA Firm President, Oxy Young Co., Ltd. Representative of institutional shareholder, Ohga Electronics Co., Ltd.	-	-	-
-	-	Bachelor, Business Administration, National Taichung Institute of Technology	-	-	-	-
-	-	Doctor of Law, 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 Legal Consultant, Taiwan Depository & Clearing Corporation Legal Consultant, Taiwan Futures Exchange Legal Consultant, GreTai Securities Market Legal Consultant, Taiwan Securities Association	-	-	-

Information on Directors and Supervisors

Name/Criteria	Meets One of the Following Professional Qualifications, and 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 Lin Tan Investments Co., Ltd.: Chyang Lo	-	-	✓
Representative of Lin Tan 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 3)	✓	✓	✓

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: Ken-Yi Cheng serves as independent director of Prolific Technology Co. concurrently while he individually serves as Holy Stone's independent director.

Note 3: The reelection of all directors and supervisors in the Shareholders' Meeting on 5th June, 2012 retired this supervisor.

as of 2013.04.16

Criteria (Note 1)										The number of other publicly traded companies in which directors or supervisors serves as independent director
1	2	3	4	5	6	7	8	9	10	
-	-	-	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
-	-	✓	✓	-	✓	✓	✓	✓	✓	-
-	-	-	✓	✓	✓	✓	✓	✓	✓	-
-	-	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1 (Note 2)
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	-	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

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

Title	Name	Date Elected	Current Shareholding		Spouse & children of minor age Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
Chairman & President	Jing-Rong Tang	1984.08.01	11,592,549	3.62	2,394,972	0.75	-	-
Director & Vice Executive President	Shih-Yun Sheng	2002.04.01	4,445,567	1.39	2,595,921	0.81	-	-
Director & Vice President	Yu-Min Wu	2005.06.01	1,165,292	0.36	17,939	0.01	-	-
Director & Vice President	Shao-Kuo Huang	2004.07.01	2,569,292	0.80	733,538	0.23	-	-
Vice President	Sheng-Yao Lu	2009.01.15	443,664	0.14	159,224	0.05	-	-
Vice President	I-Ta Lee	2009.01.15	217,278	0.07	-	-	-	-
Vice President	Hui-Bang Yeh	2009.01.15	338,525	0.11	-	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang	2003.05.02	238,549	0.07	-	-	-	-

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

Unit: Shares as of 2013.04.16

Principal Work Experience and Academic Qualifications	Position(s) held concurrently in the Company and/or in any 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 institutional shareholder, eGalax_eMPIA Technology Inc.	-	-	-
Bachelor, Department of Physics, Tamkang University Doctoral in Management, Macau University of Science and Technology	Representative of institutional shareholder and President, Infortech (China) Co., Ltd Representative of institutional shareholder, Holy Stone International Trading (Shanghai) Co., Ltd.	-	-	-
Bachelor, Department of Accounting, Providence University	Supervisor, eGalax_eMPIA Technology Inc. Representative of institutional shareholder, Infortech (China) Co., Ltd.	-	-	-
Bachelor, Business Management, Tatung University	Representative of institutional shareholder, Infortech International Trading (Shanghai) Ltd.	-	-	-
Bachelor, Information Engineering and Computer Science, Fung Chia University	President and 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, eGalax_eMPIA Technology Inc.	-	-	-

3.2.3 Compensation Paid to Directors (including Independent Directors), Supervisors, President, Vice Presidents

Compensation Paid to Directors (including Independent Directors)

Title	Name	Compensation								Total Compensation (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 Companies within the Financial Report
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report		
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)	-	-	-	-	13,668	13,783	720	840	2.20	2.23
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 2012.

Note 2: The proposed profit sharing of 2012 will take effect upon the approval of directors at the Board before the Annual Shareholder Meeting in 2013.

Note 3: Net Income means net income of the parent company in 2012.

Note 4: The Board adopted a proposal for 2012 employee profit sharing distribution of NT\$91,881 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.

Compensation Paid to Directors

Compensation Paid to Directors of Holy Stone	Directors' Name			
	Total Compensation (A+B+C+D)		Total Compensation (A+B+C+D+E+F+G)	
	From Holy Stone	From All Reinvested Co.	From Holy Stone	From All Reinvested Co.
Under NT\$2,000,000	b.c.d.e.f.g	b.c.d.e.f.g	c.f.g	c.f.g
NT\$2,000,000~NT\$5,000,000	-	-	b.d.e	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 2012.12.31

Compensation Earned as Employee of Holy Stone or of Holy Stone's Consolidated Entities												Total Compensation (A+B+C+D+E+F+G) as a % of Net Income		Compensation Paid to Directors from Nonconsolidated Affiliates
Base Compensation, Bonuses, and Allowances (E) (Note 5)		Retirement Allowance (F)		Employee Profit Sharing (G) (Note 4)				Exercisable Employee Stock Options (H)		Exercisable Employee Restricted Stock (I)				
From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone		From All Companies within the Financial Report		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	
				Cash	Stock	Cash	Stock							
13,388	15,681	-	-	N.A	N.A	N.A	N.A	1,870	1,870	-	-	4.24	4.63	Yes

Compensation Paid to Supervisors

Unit: NT\$ thousands as of 2012.12.31

Title	Name	Compensation Paid to Supervisors						Total Compensation (A+B+C) as a % of Net Income (Note 2)		Compensation Paid to Directors from Nonconsolidated Affiliates
		Base Compensation (A)		Profit Sharing (B) (Note 1)		Allowance (C)		From Holy Stone	From All Companies within the Financial Report	
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report			
Supervisor	Tang-Ming Wu (a)									
Supervisor	Chung-Yi Yang (b)	-	-	3,560	3,675	600	720	0.63	0.67	None
Supervisor	J.S. Chen (c) (Note 3)									

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

Note 3: The reelection of all directors and supervisors in the Shareholders' Meeting on 5th June, 2012 retired this supervisor.

Compensation Paid to Supervisors

Compensation Paid to Supervisors of Holy Stone	Name of Supervisors	
	Total Compensation (A+B+C)	
	From Holy Stone	From All Companies within the Financial Report
Under NT\$2,000,000	a.b.c.	b.c.
NT\$2,000,000~NT\$5,000,000	-	a.
NT\$5,000,000~NT\$10,000,000	-	-
NT\$10,000,000~NT\$15,000,000	-	-
NT\$15,000,000~NT\$30,000,000	-	-
NT\$30,000,000~NT\$50,000,000	-	-
NT\$50,000,000~NT\$100,000,000	-	-
Over NT\$100,000,000	-	-
Total	3	3

Compensation Paid to President and Vice Presidents

Unit: Thousand shares/ NT\$ thousands as of 2012.12.31

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 % of Net Income (%) (Note 3)		Exercisable Employee Stock Options		Exercisable Employee Restricted Stock		Compensation Received from Non-Consolidated Affiliates
		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone		From All Companies within the Financial Report		From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	From Holy Stone	From All Companies within the Financial Report	
								Cash	Stock	Cash	Stock							
President	Jing-Rong Tang (a)	18,745	23,165	-	-	-	-	N.A	N.A	N.A	N.A	2.86	3.54	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 2012.

Note 2: The Board adopted a proposal for 2012 employee profit sharing distribution of NT\$91,881 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 Paid to President and Vice Presidents

Compensation Paid to President and Vice Presidents of Holy Stone	President's and Vice Presidents' Name	
	From Holy Stone	From All Reinvested Co.
Under NT\$2,000,000	e	-
NT\$2,000,000~NT\$5,000,000	b.c.d.f.g	b.c.d.e.f.g
NT\$5,000,000~NT\$10,000,000	a	a
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 2012.12.31

	Title	Name	Stock	Cash	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of Net Income
MANAGERS	President	Jing-Rong Tang	-	15,500	15,500	2.37
	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 2012 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 the past two fiscal years and description on correlation between compensation paid process and operating performance, as well as future risks.

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

Item Title	Percentage of Total Compensation to Net Income (%)			
	2012		2011	
	From Holy Stone	From All Consolidated Entities	From Holy Stone	From All Consolidated Entities
Directors	4.24 (note)	4.77 (note)	4.92	5.25
Supervisors	0.64	0.69	0.69	0.74
President & Vice Presidents	2.86 (note)	3.64 (note)	4.10	4.54

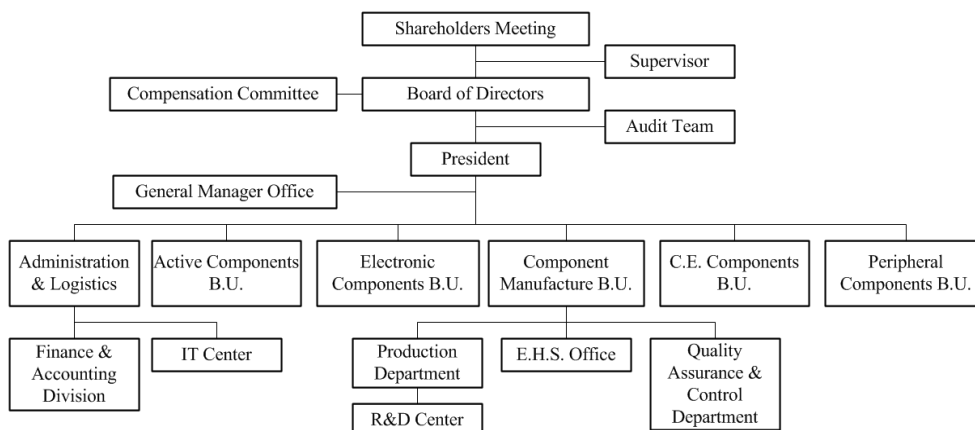
Note: As of this Annual Report printed date, the employee profit sharing list has not been decided; therefore, the percentage of total compensation to net income excludes the amount of employee profit sharing.

3.2.4.2. Correlation between compensation paid process and operating 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' compensation should not exceed 3 percent of any surplus in final account. Compensation for president and vice presidents, with the position of executive management, contains salaries and employees bonus under the consideration of employee's position, responsibilities, and performances, referring to peers' standard.

3.3 Risk Management Policy

3.3.1 Structure of Risk Management



3.3.2 Policy of Risk Management

Company operations are executed accordingly to short and long-term development strategies. Risks are unavoidable within the process of operations, therefore, before major decisions are made, evaluations on such matters are conducted cautiously by the management team. The Board of directors will exert knowledge in their field of profession whereas relevant management units will execute the plan to minimize potential risks.

3.3.3 Organization and Responsibilities of Risk Management

The Company divides risk management responsibilities among different management teams depending on the nature of business. This includes: market risks, financial risks, liquidity risks, credit risks, legal risks, and strategic and operational risks:

3.3.3.1 General Manager Office

Responsible for planning business strategies and monitoring the operational results and efficiencies to lower strategic risks; also responsible for legal risks management through complying with governmental laws on supervisory measures and handling underlying contracts and litigations to lower legal risks.

3.3.3.2 Finance & Accounting Division

Responsible for asset risk management, complying with relevant laws and regulations to ensure the sustainability of the Company and safeguarding of assets. The department is also responsible for evaluating middle- to long-term investment gains, conducting and controlling financial operations, and establishing hedging mechanisms. We shall lower financial risks through compliance with laws and regulations as well as ensuring reliable financial reporting.

3.3.3.3 IT Center

Responsible for building and maintaining ERP systems and network, ensuring network security through taking precaution measures to lower information and technology risks.

3.3.3.4 Production Department

Other than verifying production follows relevant SOP and procedures, the Production Unit is also responsible for avoiding any delays in production and delivery schedule and complying with ISO (International Organization for Standardization) standards to execute daily management.

3.3.3.5 E.H.S. Office

Responsible for the planning and execution of environmental, safety, and hygiene measures to comply with relevant laws and regulations and lower risks associated with environment, safety and health.

3.3.3.6 R&D Center

Evaluate if there are risks of infringing existing patents or intellectual properties from the development of new products, and manage patents and intellectual properties.

3.3.3.7 Quality Assurance and Control Department

Ensure products are manufactured in accordance to standards of EIA (Electronics Industry Alliance) to lower risks related to quality and customer complaints.

3.3.3.8 Audit Team

Responsible for evaluating significant risks and placing these risks in the center of audit planning. The Audit Team shall submit a report regarding the risks.

3.4 Corporate Governance Status

3.4.1 The Operations Status of the Board of Directors

The State of Operations of the Board of Directors

The chairman convened 7 (A) board of directors meetings in 2012. The directors' attendance status is as follow:

Title	Name	Attendance in Person (B)	Attendance 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	2	57.14	-
Director	Shao-Kuo Huang	6	1	85.71	-
Independent Director	Ken-Yi Cheng	7	-	100.00	-
Independent Director	Nai-Hua Wu	7	-	100.00	-
Supervisor	Tang-Ming Wu	7	-	100.00	-
Supervisor	Chung-Yi Yang	7	-	100.00	-
Supervisor	J.S Chen	3	-	100.00	Retired on 06/05/2012; there were 3 board meetings during the on-board period

Annotations:

- 1.If an independent director had a dissenting or reserved opinion on the Board's resolution that conforms to the Securities Exchange Act Article 14-3 that is written or otherwise recorded, the meeting date, term, proposal contents, and all opinions of independent directors and handling of those opinions from corporate are stated as follow: None.
- 2.Recusals of directors due to conflicts of interests should state directors' name, proposal contents, reasons to avoid interests, and participation in votes: Case 6 of the board meeting convened on 03/16/2012 nominates independent director and reviews the said directors' qualification. Since the nominees are independent directors serving currently, Mr. Ken-Yi Cheng and Nai-Hua Wu separately explained the conflict of interest as stated by law, and avoided participating or voting in this case due to the recusal of conflict of interest policy.
- 3.Evaluation of measures taken to strengthen the profession competence of the Board and its implementation:
 - (1) Independent directors and Compensation Committee are established and in place.
 - (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) Designated specialists are responsible to announce information required to be disclosed by law to ensure accurate information is uploaded to the Market Observation Post System in a timely manner, and disclose the information on the Company's website simultaneously. Such information includes directors' and supervisors' attendance, advanced studies, and functional committees operational statuses.

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

- 3.4.2.1. The state of operations of the audit committee: Holy Stone has no Audit Committee.
 3.4.2.2. 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 2012. The directors' attendance status is as follows:

Title	Name	Attendance in Person (B)	Attendance 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	Retired on 06/05/2012; there were 3 board meetings during the on-board period

Annotations:
 1. Composition and responsibilities of supervisors:
 (1) The communication between supervisors and employees and stockholders
 i. Conduct inspection in the Company irregularly and communicate with employees whenever necessary.
 ii. Regularly attend the Board meetings, 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). During 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 the corporate.

3.4.3 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
1. Shareholding Structure & Shareholders' Rights		
(1) Method of handling shareholder suggestions or complaints	(1) i. The Company has spokesman, public relation team, and stock affairs office to handle relative matters. ii. Shareholders meetings are held by its corresponding discussion rules.	None
(2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders	(2) Other than analyzing the distribution profile of share ownership after the final day for stock transfer, the Company also has stock affairs office and specialists to be in touch with our stock transfer 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.	None
(3) Risk management mechanisms and "firewall" between the Company and its affiliates	(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,"	None

Item	Implementation Status	Deviation from rules as required by the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons
	<p>“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>2. Composition and Responsibilities of the Board of Directors (1) Independent Directors (2) Regular evaluation of external auditors' independence</p>	<p>(1) Selecting two independent directors. (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. 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 None</p>
<p>3. Communication channel with stakeholders</p>	<p>(1) Designated personnel handles related matters. (2) Independent directors and supervisors shall contact stakeholders directly when necessary. (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>4. Information Disclosure (1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance status (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 set up a website in both Chinese and English which is updated regularly with the latest information on products, corporate introduction, and financial statements. (2) The Company has appointed a spokesperson. 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 for the investors.</p>	<p>None 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 2011 and the meetings follow “Procedures for Compensation Committee”. For operational status, please refer to page 20 of this Annual Report.</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 and evaluate proposed deliberation, and slowly establish other committees in accordance to the need of business operations and regulations..</p>

Item	Implementation Status	Deviation from rules as required by the “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the reasons
6.	<p>If the Company has established corporate governance policies based on TWSE Corporate Governance Best Practice Principles, please describe any discrepancy between the policies and their implementation:</p> <p>The Company is mapping out its corporate governance policies. Regarding directors’ and supervisors’ authority execution, internal control system, and relevant managing measures, we have complied on the basis of the TWSE principles and exercised accordingly.</p>	
7.	<p>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' continuing education, 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> <ul style="list-style-type: none"> i. Forced labor and child labor are prohibited. Workers are free to leave upon reasonable notice. Workers under the age of 18 shall not perform hazardous work, and the Company conforms to the local restriction of evening shifts. ii. Holy Stone adopts the Equal Employment Opportunity Rules. Any employee or applicant shall not be discriminated based on sex, age, race, religion, color, national origin, disability or other factors. The workforce shall be free of harassment and unlawful discrimination. iii. Compensation paid to workers shall comply with all applicable wage laws and local practices to protect human rights and employee benefits. This includes those related to minimum wage, overtime hour, etc. iv. 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.” v. The achievements of corporate goals rely on each employee’s effort. Under such circumstances, labors and management are able to perform their specialty. 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>(2) Investor relations: Holy Stone’s website provides updated sales revenue as well as the latest corporate news in both Chinese and English. Moreover, spokespersons and designated personnel are appointed to set up effective communication channels with investors and customers. The e-mail address is as follow: IR@holystone.com.tw</p> <p>(3) Supplier relations: Besides executing Green Management, the Company also manages supplier relations actively with good strategic cooperation. Please refer to the Company’s CSR Report for more detail. Website: http://holystone.com.tw</p> <p>(4) Stakeholder rights: The Company has designated employees to take different positions to communicate with 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> <ul style="list-style-type: none"> i. The Company’s directors and supervisors have backgrounds and work experiences in the area of commerce, law, finance, accounting, and business management. ii. The Company provides information on relevant courses to directors and supervisors irregularly. These courses cover the latest financial reporting standards, regulations on Securities and Exchange Act, taxes, roles of independent directors and other corporate governance and risk management topics. iii. Website: http://mops.twse.com.tw. <p>(6) Policies and implementation of risk management: Please refer to page 15-16 and 66-68 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. The yearly customer satisfaction survey serves to improve customer relations. Please refer to the Company’s CSR Report for more detail.</p> <p>(8) Liability insurance for directors and supervisors:</p> <p>Holy Stone has bought liability insurance for directors and supervisors, and the maximum amount of compensation is US\$5 million per case, a yearly accumulative total.</p>	
8.	<p>If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such evaluations, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: None.</p>	

3.4.4 Disclosure, if any, on Compensation Committee’s formation, responsibilities and operational status

3.4.4.1. Formation and Responsibilities

Information on Compensation Committee Members

Title	Criterion Name	Meets the qualifications as stated below and at least 5 years of work experience			Meets independence requirement								Number of other publicly traded companies in which members serve in compensation committees	Remarks
		An Instructor in college or higher education in the department of commerce, law, finance, accounting, or other profession necessary for the business of the Company	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, accounting, or others necessary for the business of the Company	1	2	3	4	5	6	7	8		
Chairman	Ken-Yi Cheng	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	Ken-Yi Cheng concurrently serves as a compensation committee member in Prolific Technology Co.
Member	Nai-Hua Wu	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Member	Chu-Yang Chien	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	-	-

3.4.4.2. Operational Status

3.3.4.2.1. There are a total of 3 members in Holy Stone’s Compensation Committee.

3.3.4.2.2. The term for committee members: 2012.06.05 to 2015.06.04

There were 2 (A) compensation committee meeting(s) in 2012. The members’ attendance status is as follow:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Attendance Rate in Person (%) (B/A)	Remarks
Chairman	Ken-Yi Cheng	2	-	100.00	Continuing term
Member	Nai-Hua Wu	2	-	100.00	Continuing term
Member	Chu-Yang Chien	2	-	100.00	Continuing term

Annotations:

- If the Board of directors refused to accept or revise suggestions from the Compensation Committee, the Board meeting date, term., content of proposals discussed, resolutions of the Board, and the procedures taken towards the Compensation Committee’s suggestions are stated as follow (if compensation passed by the Board is higher than the amount suggested by the Compensation Committee, the difference and reason for difference shall be stated): None.
- If any members had a dissenting or reserved opinion during meeting that is written or other recorded, the meeting date, term, content of proposals discussed, opinions of all members and the procedures taken towards the member’s opinion are stated as follows: None.

3.4.5. Corporate Social Responsibility Management

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 systems 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"> 1. Adhering to governmental laws and statutes and setting higher standards of code of conduct. 2. Practice strong corporate governance, actively build corporate value and protect the rights and interests of our investors. 3. Follow relevant laws, regulations and ISO 14001 requirements, engage in environmentally-friendly practices and create a green corporation. 4. All operation units regardless of geographic area must be in compliance with applicable laws (“Labor Law”) in the employment of staff. 5. Caring for employees’ safety and health by providing a comprehensive work environment in which safety and hygiene is upheld. 6. Attending to the minorities through encouraging employees’ participation in community services. <p>(2) The Company has designated personnel responsible for promoting CSR, reviewing executions 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 regulations.</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 the negative impacts 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 the priority.</p> <p>(2) Qualify for ISO 14001 Environmental Management System certificate.</p> <p>(3) Set up an Environmental Safety Division (E.H.S.)</p> <p>(4) Regularly check environment-related regulations to maintain compliance; promote energy-saving and environmental protection activities; and invest in pollution control equipments.</p>	<p>None</p> <p>None</p> <p>None</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
3. Protect Social Welfare		
(1) Status of complying to labor laws, protecting the rights of employees, and framing suitable management procedures	(1)1. Establish Company policies based on Labor Law, and revise and update according to amendments to the law. 2. Based on the Gender Equality in Employment Act, establish a committee to handle complaints, create a complaint system and harassment prevention measures to protect employees’ rights.	None
(2) Status of providing a hazard-free work environment and regular training courses to employees on safety and health issues	(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 handling of gases. ii. Form suitable emergency response teams according to each geographic area and strengthen security protection in workplaces.	None
(3) Status of creating communication channels with employees and notifying employees in an appropriate manner on operational changes that might have a significant impact on the employee.	(3) Communication with employees is carried out through regular departmental meetings, the Company’s Quarterly Journal, and telecommunications (through email or internal communication system). We also encourage employees to communicate with management team and directors directly in reflection of opinions on business operations, financial status and employee wellness, etc.	None
(4) Status of disclosing consumer rights policy and providing transparent and efficient complaints procedure for corresponding products and services	(4)i. Set up sales personnel to resolve customer complaints. ii. Handle customer complaints in accordance with “Customer Complaints Procedure.” iii. Periodically conduct customer satisfaction survey.	None
(5) Status of cooperation between the Company and its vendors to raise awareness of Corporate Social Responsibility	(5)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. ii. Suppliers are responsible to ensure their labor employment policies comply with international standards, grant employees human rights, and refuse to hire illegal employees. iii. Require vendors to use recycled packaging material and reuse plastic pallets as substitute for wooden pallets.	None
(6) Status of the Company’s participation in charities or community development, through commercial activities, donations, community services, or other services	(6)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 or to those in need of financial aid, enabling them to advance further in their studies. Furthermore, we also sponsor several non-profit organizations to promote	None

Item	Implementation Status	Deviation from rules as stated by the “CSR Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
	<p>awareness for their cause.</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. Formed in 2011, Holy Stone Volunteers promotes corporate social responsibility, allowing employees to take action in helping the community while broadening each individual’s vision and experience.</p> <p>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 living in remote areas.</p>	
<p>4. Strengthen Information Disclosure</p> <p>(1) Method of disclosing relevant and reliable information related to corporate social responsibility</p> <p>(2) Status of disclosing the promotion of corporate social responsibility in CSR report</p>	<p>(1) Disclose commitments on corporate social responsibility under “Corporate Social Responsibility” section on the corporate website.</p> <p>(2) Disclose CSR report annually on the corporate website. Please refer to: http://www.holystone.com.tw</p>	<p>None</p> <p>None</p>
<p>5. If the Company has its own CSR guidelines in accordance with “Corporate Social Responsibility Best Practices Principles for TWSE/GTSM-Listed Companies,” please describe the difference in the Company’s guidelines and its actions: Corporate social responsibility is one of Holy Stone’s business strategies. Other than posting our corporate social responsibility commitment on the website, we have also prepared annual CSR reports based on the relevant regulations. The Company’s self-assessment result shows that there is no deviation between the two.</p>		
<p>6. Other supplementary information that is relevant to understanding the operations of CSR (e.g. the Company’s system and measures toward environment, community, community service, community welfare, consumer rights, human rights, safety and hygiene, and others): All information regarding CSR is fully disclosed in each year’s CSR Report; please refer to the Company’s website.</p>		
<p>7. Please describe, if any, the Company’s product or CSR report that have passed standard examinations by related certification body: The Company’s CSR Report was completed with the assistance from “Industrial Sustainable Development and International Environmental Protection Standards Project” from the Ministry of Economic Affairs, and has not seek consultation from external certification parties.</p>		

3.4.6. Ethical Corporate Management

Item	Implementation Status	Deviation from rules as stated by the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
<p>1. Establish policies and plans for ethical business practices</p> <p>(1) Explicitly state policies of ethical business practices in the Company’s regulations and public documents, and show commitments and initiatives among the Board of directors and management team.</p> <p>(2) Establish prevention measures against unethical business practices, its relevant procedures, conduct guidelines, and educational training</p> <p>(3) Establish prevention measures against activities with higher risks of unethical business practices, preventing behaviors such as briberies, illegal political offerings, etc.</p>	<p>(1) The Company has disclosed the policies for ethical business practices within our CSR commitment. This commitment can be found on our corporate website in both Chinese and English. In addition, the Company has established policies for information disclosure and recusal of directors in the event where conflict of interest occurs and recorded in “Board of Directors Discussion Rules” and “Procedures for Important Internal Information Management”. “Accounting Policies” and “Internal Control Policies” and other relevant management measures are also in place to ensure the Board and management team perform ethical business practices.</p> <p>(2) Prevention measures against unethical business practices are as follow:</p> <ul style="list-style-type: none"> i. State relevant regulations and consequences upon violation within the Company’s regulations. ii. Include ethical activities within the review process for employee performance and human resource policies. iii. Require new employees to commit and sign terms regarding integrity while Human Resource Department will explain Holy Stone’s policies concerning CSR and relevant information on company regulations. iv. When signing contracts with vendors and customers, require them to commit and sign terms regarding integrity. v. Promote ethical business practices through educational courses and internal communication channels within the company. <p>(3) To prevent against unethical business practices within activities with higher risks of occurrence, require vendors to sign “Corporate Social Responsibility Commitment” along with the vendor contract to better manage Holy Stone’s supply chain. And similar for the customers, we also commit to each other in performing ethical business practices and preventing behaviors such as briberies, illegal political offerings from happening.</p>	<p>None. If necessary, execution will be based on rules of “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” and other relevant regulations.</p> <p>None</p> <p>None</p>
<p>2. Implement ethical business practices</p> <p>(1) Prevent from carrying out transactions with companies with records of unethical business operations, and also explicitly state terms of ethical behaviors in contracts</p> <p>(2) Designate personnel to implement</p>	<p>(1) Require vendors to sign “Corporate Social Responsibility Commitment”</p> <p>(2) Assign the Human Resources Department as the</p>	<p>None</p> <p>None</p>

Item	Implementation Status	Deviation from rules as stated by the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies” and the reasons
<p>and promote ethical business practices, and supervision provided by the Board</p> <p>(3) Establish policies to prevent conflict of interest and provide appropriate communication channels for ease of reporting</p> <p>(4) Establish effective accounting policies and internal control policies based on ethical business practices, as well as status of internal auditing</p>	<p>designated unit, and the General Manager Office and Audit Team will collaboratively assist in implementing and promoting business ethics. In the case where business ethics is violated, the corresponding unit shall report to the Board.</p> <p>(3) i. The Company has established policies for recusal of directors in the event where conflict of interest occurs and recorded in “Board of Directors Discussion Rules”. The same applies to those involved within internal operations. ii. Employees can report such matters during regular departmental meetings, and through email or internal communication system. We also encourage employees to communicate with management team and directors directly.</p> <p>(4) Established “Accounting Policies” and “Internal Control Policies” based on ethical business practices. Through internal audit team, appointed accountant and internal control self-assessment, compliance with these policies will be regularly checked and reported to the Board.</p>	<p>None</p> <p>None</p>
<p>3. Establish report channels and set up punishment for violation of the Company’s business ethics policies</p>	<p>The Company explicitly states punishments for violation of the Company’s business ethics policies in its regulation. Employees can report such matters during regular departmental meetings, and through email or the internal communication system. We also encourage employees to communicate with management team and directors directly</p>	<p>None</p>
<p>4. Strengthen Information Disclosure</p> <p>(1) Disclosing information related to business ethics on the Company website</p> <p>(2) Other methods of disclosure (setting up English website, designating personnel to organize and disclose information on the website)</p>	<p>(1) Disclose information on business ethics on the Company’s website in both Chinese and English.</p> <p>(2) Designated personnel maintains information on the website.</p>	<p>None</p> <p>None</p>
<p>5. If the Company has its own business ethics guidelines in accordance with “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies,” please describe the difference in the Company’s guidelines and its actions: The Company established business ethics policies, but has yet to establish best practice principles. However, the Company has followed laws and regulations to implement business ethics and disclosed information on Market Observation Post System. Each policy is periodically reviewed by the internal audit team, appointed accountant, and through internal control self-assessments. The results will be reported to the Board. The Company creates sound systems on corporate governance and risk control and continues to strive for corporate social responsibility and sustainable operations. There is no deviation between our best practice principles and “Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies.” And the Company intend to develop related measures on business ethics.</p>		
<p>6. Other supplementary information that is relevant to understanding the operations of business ethics (e.g. the Company promoting its business ethics and policies with business partners, and inviting them to participate in educational activities, and to review the Company’s business ethics policies):</p> <ol style="list-style-type: none"> 1. Customers and Suppliers: Business activities with partners within the supply chain follow equality, justice, and honesty. 2. Employees: The Company’s business ethics policies and objectives are promoted within irregular educational activities. 3. Investors/Shareholders: Regularly update the corporate website, disclosing an overview, basic information, and financial status of the Company. Information regarding the Company is also uploaded to the Market Observation Post System in a timely manner. 4. Internal Control: Establish SOPs, limits of authority, internal audit systems, and related internal control measures. These measures are reviewed regularly on their effectiveness. 		

3.4.7. 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>

3.4.8. 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

3.4.9. Internal Control System Execution Status Items

3.4.9.1. Statement of Internal Control System

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

Date: March 20, 2013

Based on the findings from self-assessment, Holy Stone states the following with regard to its internal control system during the period from January 1, 2012 to December 31, 2012:

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 2012, 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 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 20, 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:

- 3.4.9.2. The disclosure of the external auditors' opinion on Holy Stone's internal control: Not applicable.

3.4.10. Punishment of the Corporate or its internal staff upon violation of the law, and internal control regulations, the main drawbacks, and improvements made during the most recent fiscal year and as of the printed date of this Annual Report. None.

3.4.11. Important decisions made by shareholders' meeting and the Board during the most recent fiscal year and as of the printed date of this Annual Report.

Major resolutions of Shareholders' Meeting and Board Meetings during the most recent fiscal year and as of the printed date of this Annual Report are summarized as follow:

Date	Decided by	Major Resolutions	Implementation Status
2012.06.05	Shareholders' Meeting	<ol style="list-style-type: none"> 1. The approval for 2011 business report and financial statements. 2. The approval for the distribution of 2011 profits. 3. The approval for the amendment of "Procedures Governing the Acquisition and Disposal of Assets." 4. The approval for the amendment of "Articles of Incorporation." 5. The approval for the amendment of "Directors' and Supervisors' Voting System." 6. Election of directors and supervisors. 7. The approval for releasing directors' from the restriction of non-competition clause. 	All resolutions have been passed without any participating shareholders expressing dissenting opinions and fully implemented accordingly.
2012.01.11	Board Meeting	<ol style="list-style-type: none"> 1. The approval of compensations for directors, supervisors and managers. 2. The approval for the business plan for 2012. 	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"> 1. The approval for 2011 business report and financial statements. 2. The approval for the distribution of 2011 profits. 3. The approval for the amendment of "Articles of Incorporation." 4. The approval for the amendment of "Directors' and Supervisors' Voting System." 5. The approval for directors' (including independent directors) and supervisors' reelection. 6. The approval for nominating and evaluating qualifications of independent directors. 7. The approval for releasing directors' from the restriction of non-competition clause. 8. The approval for the amendment of "Procedures Governing the Acquisition and Disposal of Assets." 9. The approval for convening the 2012 Annual Shareholders' Meeting. 10. The approval for 2011 Statement of Internal Control System. 11. The approval for the amendment of "Internal Control System." 12. The approval for the amendment of 2012 internal audit plan. 	<ol style="list-style-type: none"> 1. All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly, with the exception of independent directors, Mr. Ken-Yi Chen and Mr. Nai-Hua Wu's recusal during the approval of No. 6 due to conflict of interest. 2. Resolution No. 1-5 and 7 has been passed without any participating shareholders expressing dissenting opinions and 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.
2012.06.05	Board Meeting	Election of Chairman	All participating directors and supervisors agreed to the election of Mr. Jing-Rong Tang as Chairman without expressing dissenting opinions.
2012.06.15	Board Meeting	<ol style="list-style-type: none"> 1. The approval of ex-dividends by cash dividends payment. 2. The approval for assigning Compensation Committee members. 3. The approval for authorization of related operations with financial institution. 4. The approval for lending funds among subsidiaries. 	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2012.08.27	Board Meeting	<ol style="list-style-type: none"> 1. The approval for the first half of 2012 financial statements and consolidated financial statements. 2. The approval for endorsement/guarantee for subsidiaries. 3. The approval for regular reviews by Compensation Committee on matters related to compensations. 	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.

Date	Decided by	Major Resolutions	Implementation Status
2012.12.11	Board Meeting	<ol style="list-style-type: none"> The approval for compensations of directors, supervisors and managers. The approval for the amendments of "Board of Directors Discussion Rules" The approval for the Company's 2013 internal audit plan. 	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.
2013.03.20	Board Meeting	<ol style="list-style-type: none"> The approval for 2012 business report. The approval for the first half of 2012 financial statements and consolidated financial statements. The approval for the distribution of 2012 profits. The approval for distributing cash from capital reserve. The approval for the amendment of "Procedures Governing the Loan of Funds." The approval for the amendment of "Endorsement / Guarantee Procedures." The approval for convening the 2013 Annual Shareholders' Meeting. The approval for 2012 Statement of Internal Control System. 	<ol style="list-style-type: none"> Resolution No. 3 has been adjusted by all participating directors and supervisors to distribute NT\$1.50 per share in cash, a total of NT\$479,031,681. Resolution No. 3 has been adjusted by all participating directors and supervisors to distribute NT\$0.50 per share in cash, a total of NT\$159,677,227. All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly with the exception listed in 1. and 2.
2013.05.08	Board Meeting	<ol style="list-style-type: none"> The approval for change in Certified Public Accountants auditing financial statements. The approval for endorsing/guaranteeing for Everplus Material Co., Ltd. The approval for executing cash deduction. The approval for the additional resolution within 2013 shareholders' meeting 	All resolutions have been passed without any participating directors or supervisors expressing dissenting opinions and have fully implemented accordingly.

3.4.12. Directors or Supervisors who have different opinions to major resolutions passed by the Board and with records or written declarations during the most recent fiscal year and as of the printed date of this Annual Report.

None.

3.4.13. During the most recent fiscal year and as of the printed date of this Annual Report, resignation and dismissal of the Chief Executive Officer, Chief Financial or Accounting Officer, manager of internal audit, and manager of research and development

None.

3.5. Information on Independent Auditors

Audit Fee

Unit: NT\$ thousands

Accounting Firm	Names of CPA	Audit Fee	Non-audit Fees					Auditing Term	Remarks
			System Design	Business Registration	Human Resource	Others	Subtotal		
KPMG	Ching-Sung Wang	2,000	-	-	-	50	50	2012.01.01 ~2012.12.31	-
	Chia-Hsin Chang	~4,000							

3.5.1. Non-audit fee accounts for over a quarter of audit fee or over NT\$500 thousand: None.

3.5.2. The change in accounting firms and audit fee paid is less than that paid in the year before the change: None.

3.5.3. Audit fee is fifteen percent less compared with the past fiscal year: None.

3.6. Change of Auditors

None.

3.7. Holy Stone's Chairman, Chief Executive Officer, Chief Financial or Accounting 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.

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

3.8.1. Status of Net Change in Shares Pledged by Directors, Supervisors, Managers, and Prime Shareholders during the most recent fiscal year and as of the printed date of the Annual Report

Unit: Shares

Title	Name	2012		2013.01.01~2013.04.16	
		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	-	-	-	-
Independent Director	Nai-Hua Wu	-	-	-	-
Independent Director	Ken-Yi Cheng	-	-	-	-
Supervisor	Chung-Yi Yang	-	-	-	-
Supervisor	Tang-Ming Wu	-	-	-	-
Supervisor	J.S Chen (Note)	-	-	-	-
Vice President	Yu-Min Wu	-	-	-	-
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: The reelection of all directors and supervisors in the Shareholders' Meeting on 5th June, 2012 retired this supervisor.

3.8.2. Information on Share Transfer: None.

3.8.3. Information on Pledged Shares: None.

3.9. Information on the Ten Largest Shareholders who is a Related Party or a Relative within the Second Degree of Kinship of Another

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

3.10. The total number of shares and total equity stake held in any single enterprise by the Company, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the Company

Unit: shares / % as of 2012.12.31

Enterprise Invested	Investment 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.	55,000,000	100.00	-	-	55,000,000	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
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

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
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
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

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
09/2008	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 2012.04.16

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. Shareholder Structure

Unit: Shares as of 2013.04.16

Type	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Treasury Stock	Total
Number of Shareholders	2	4	73	96	31,722	1	31,898
Number of Shareholding	64	21,399,193	53,463,794	22,868,589	221,622,814	863,000	320,217,454
Holding Percentage	0.00%	6.68%	16.70%	7.14%	69.21%	0.27%	100.00%

4.1.3. Diffusion of Ownership

As of 2013.04.16

Shareholder Ownership	Number of Shareholders	Ownership	Ownership(%)
1-999	9,237	1,566,366	0.49%
1,000-5,000	15,657	34,417,426	10.75%
5,001-10,000	3,501	25,778,478	8.05%
10,001-15,000	1,297	15,767,534	4.92%
15,001-20,000	663	12,026,500	3.76%
20,001-30,000	569	13,912,750	4.34%
30,001-40,000	304	10,825,194	3.38%
40,001-50,000	162	7,414,188	2.32%
50,001-100,000	279	19,495,340	6.09%
100,001-200,000	125	17,540,291	5.48%
200,001-400,000	39	10,899,942	3.40%
400,001-600,000	15	7,424,402	2.32%
600,001-800,000	8	5,714,725	1.78%
800,001-1000,000	5	4,453,764	1.39%
Over 1,000,001	37	132,980,554	41.53%
Total	31,898	320,217,454	100.00%

4.1.4. List of Principal Shareholders

As of 2013.04.16

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%
Fund Investment Account on Dimensional Emerging Markets Evaluation managed by Citibank		3,608,643	1.13%
Mei-Yu Lin		3,518,995	1.10%

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

Unit: Thousand of shares / NT\$

Item		Fiscal Year	2011	2012	01/01/2013 ~04/30/2013
Market price per share	Highest market price		38.60	30.80	27.85
	Lowest market price		24.50	23.20	25.00
	Average market price		31.72	26.47	26.21
Net worth per share	Before distribution		28.40	28.12	28.84(Note 5)
	After distribution		26.40	(Note 1)	-
Earnings per share	Weighted average shares		319,599	319,354	319,354
	Earnings per share		2.38	2.05	0.53
Dividends per share	Cash dividends		2.00	2.05(Note 1)	-
	Stock dividends	From retained earnings	-	-	-
		From capital surplus	-	-	-
	Accumulated undistributed dividends		-	-	-
Returns on investment	Price / Earnings Ratio (Note 2)		13.33	12.91	-
	Price / Dividend Ratio (Note 3)		15.86	13.24(Note 1)	-
	Cash Dividend Yield (Note 4)		6.31%	7.56%(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, 2013

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 Dividends Distribution Proposal

1. On March 20, 2013, Holy Stone's Board of Directors approved a proposal for distribution of 2012 profits with a cash dividend of NT\$2.00 per share.
 - i. Resolution of distribution from profits for 2012 is cash dividend of NT\$1.50 per share.
 - ii. Resolution of distribution from capital reserve is cash dividend of NT\$0.50 per share.

After the approval of the Annual Shareholders' Meeting, the Board will decide on the date of distribution.
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 before the distribution date given that any changes in current outstanding shares cause the payout ratio to change. The Board will be authorized by the shareholders meeting to execute the adjustment based on approval 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 in cash, therefore not applicable.

4.1.8. Employee bonuses and compensation of directors and supervisors:

4.1.8.1. The percentages or ranges with respect to employee bonuses and director/supervisor compensation, as set forth in 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 from special reserve or reverse special reserve based on applicable laws and 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:
 - i. Directors and supervisors' compensations are no more than 3%.
 - ii. 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 the decision is proposed by the Board and approved by the Annual Shareholders' Meeting..

4.1.8.2. The basis for estimating the amount of employee bonuses and director/supervisor compensation, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

1. According to the operating forecast of 2012 made by the Board and past distribution, deducting 10% of legal reserve and the special reserve from net income, employees' bonus and directors'/supervisors' compensation of 2012 were 16 percent and 3 percent respectively. Using this calculation, employees' bonus and directors'/supervisors' compensation of 2012 are NT\$91,881 thousand and NT\$17,228 thousand respectively,.
2. The issued stock shares will be calculated using the closing price on the day before the 2012 Annual Shareholders' Meeting taking the effect of ex-dividend into consideration.
3. The discrepancy between actual distribution amount and the proposed distribution amount shall be recognized as change in accounting estimates and recorded on the Statement of Income.

4.1.8.3. Information on any employee bonus distribution proposal approved by the Board of Directors

1. Distribution of cash bonuses or stock bonuses to employees, and compensation for directors/supervisors. If there is any discrepancy between such an amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed. On March 20, 2013, the Board approved for the distribution of NT\$91,881 thousand of employee bonus and NT\$17,228 thousand of directors' and supervisors' compensation, which will be paid in cash, which is consistent with the expensed amount in 2012. Subsequently, if there is discrepancy after the Annual Shareholders' Meeting, the difference shall

be recognized as expenses in 2013.

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 actual distribution of employee bonuses and Directors and Supervisors Compensation in 2011

The Company distributed NT\$105,693 thousand of employee bonuses, and NT\$19,818 thousand of directors' and supervisors' compensation in 2011, both amount is consistent with the proposed amount by the Board.

4.1.9. Buyback of Common Stock

During the most recent fiscal year and as of the printed date of the Annual Report, there were no buybacks of common stock.

4.2. Issuance of Corporate Bonds

4.2.1. Issuance of Corporate Bonds

as of 2012.04.30

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 with 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\$104,500,000	
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 2012 was NT\$2.05, similar to NT\$2.38 in 2011; showing that past financing activity did not have significant dilution effect on equity value	
Custodian	Not applicable	

4.2.2. Information on Convertible Bonds

Type of Corporate Bond		Third Domestic Unsecured Convertible Bond		
Year		2011	2012	2013.01.01~2013.04.30
Item				
Market Price of Convertible Bond	Highest	108.20	102.00	100.00
	Lowest	98.20	99.55	100.00
	Average	103.45	100.30	100.00
Convertible Price		NT\$37.12 since 2011.08.16	NT\$34.38 since 2012.08.14	
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		

4.2.3. Information on Exchangeable Bonds: Not applicable.

4.2.4. Summary of Issuance of Corporate Bonds: Not applicable

4.2.5. Information on Warrants: Not Applicable

4.3. Issuance of Preferred Shares

None.

4.4. Issuance of Global Depositary Shares

None.

4.5. Issuance of Employee Stock Options

4.5.1. Issuance of Employee Stock Options during the most recent fiscal year and as of the printed date of the annual report and its Impact to Equity.

as of 2012.04.30

Employee Share Subscription Warrants	Third Warrant	Fourth Warrant
Approval Date by the Securities & Futures Bureau	2006.07.28	2007.11.21
Issuance Date	2007.06.15	2007.12.03
Number of Options Granted	3,500,000	10,000,000
Percentage of Shares Exercisable to Outstanding Common Shares	1.09%	3.12%
Option Term	2009.06.15 2013.06.14	2009.12.03 2017.12.02
Source of Option Shares	New Common Share	New Common Share
Vesting Schedule (%)	2 nd Year: up to 50% 3 rd Year: up to 25% 4 th Year: up to 25%	2 nd Year: up to 15% 3 rd Year: up to 15% 4 th Year: up to 25% 5 th Year: up to 25% 6 th Year: up to 20%
Shares Exercised	-	-
Value of Shares Exercised	-	-
Shares Unexercised	3,500,000 shares	10,000,000 shares
Grant Price Per Share	NT\$36.70	NT\$32.80
Percentage of Shares Unexercised to Outstanding Common Shares (%)	1.09%	3.12%
Impact to Stockholders' Equity	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 2012.04.30

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 4)	Value of Shares Unexercised	% of Shares Unexercised to Outstanding Common Shares
President	Jing-Rong Tang	3,120 (Note 3)	0.97%	-	-	-	-	-	-	-	-
Vice Executive President	Shih-Yun Sheng			-	-	-	-	-	-	-	-
Vice President	Yu-Min Wu			-	-	-	-	-	-	-	-
Vice President	Shao-Kuo Huang			-	-	-	-	-	-	-	-
Vice President	Sheng-Yao Lu			-	-	-	-	3,500 (Note 1)	36.70	128,450	1.09%
Vice President	I-Ta Lee			-	-	-	-	-	-	-	-
Vice President	Hui-Bang Yeh			-	-	-	-	-	-	-	-
Manager of Finance and Accounting Department	Shu-Ying Chang			-	-	-	-	10,000 (Note 2)	32.80	328,000	3.12%
Corporate employees		10,380	3.24%								

Note 1: Employee stock options granted issuance in 2007.06.15

Note 2: Employee stock options granted issuance in 2007.12.03

Note 3: Managers have not exercised employee stock options granted

Note 4: Current options granted price

4.6. Employee Restricted Stock

None.

4.7. Mergers and Acquisitions

None.

4.8. Status of New Share Issuance in Connection with Acquisitions

None.

4.9. Financing Plans and Implementation

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:

4.9.1. 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	-	660,000	-	-	-	-	-
Acquisition of Plant, Property & Equipment	2012 Q1	1,495,921	333,921	-	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

4.9.2. Implementation Status

Unit: Thousands of NT\$

	Implementation Status	Up to 2013 1Q	Implementation Status		Reasons of behind/ ahead of schedule and improvement plans
			Projected	Actual	
Repayments of Bank Loans	Capital Expensed	Projected	660,000	100%	Completed on schedule.
			Actual	660,000	
Acquisition of Plant, Property & Equipment	Capital Expensed	Projected	1,495,921	100%	Current production capacity is sufficient to meet the manufacturing needs of each product. To prevent from purchasing equipments causing overcapacity and idled equipments, the purchasing plan will be postponed depending on the needs of production expansion.
			Actual	1,376,614	
Total	Capital Expensed	Projected	2,155,921	100%	
			Actual	2,036,614	

4.9.3. Evaluation of benefits

Unit: Thousands of NT\$

	2011	2012	Increase (Decrease) in Capital	Increase (Decrease) Percentage
Current Assets	7,451,373	7,260,809	(190,564)	(2.50%)
Long-term Assets	2,703,902	2,700,909	(2,993)	(0.11%)
Current Liabilities	3,646,157	3,351,281	(294,876)	(8.09%)
Total Liabilities	3,774,760	3,587,236	(187,524)	(4.97%)
Revenue	13,146,941	12,454,958	(691,983)	(5.26%)
Cost of Goods Sold	11,866,080	11,057,199	(808,881)	(6.82%)
Operating Profit	551,604	667,264	115,660	20.97%
Interest Expense	19,586	18,745	(841)	(4.29%)
EPS (NT\$)	2.38	2.05	(0.33)	(13.87%)

Note: The issuance of convertible bonds is part of the parent company's financial plan, therefore evaluation is conducted with the parent company's financials.

4.9.4. 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 businesses

- (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 Relative weight of each core product (2012)

Item	Shares of Sales Revenue
Passive Components	33.73%
Active Components	25.72%
System & Module	15.41%
Other Components	25.14%
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 and modules
- (4) Other components

5.1.1.4 New products to develop

- (1) MLCC for wireless charging and LED applications
- (2) MLCC with BME medium-pressure high-capacity
- (3) Capacitors for industrial and medical applications
- (4) MLCC powder for special applications
- (5) Highly reflective thermal substrates
- (6) Thin filmed thermal substrates

5.1.2. Industry Overview

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

In 2012, Euro zone bond spreads shrank, financial statuses of emerging countries began to stabilize, but International Monetary Fund (IMF) expressed its uncertainty for the future because of the minimal improvements seen in the banking industry. It is expected that growth momentum will be slow in the first half of 2013 due to the United States' financial problems and European debts crisis have yet to subside. On the other hand, however, other economies will spur global growth with China having the strongest drive. In April, 2013, IMF predicted global economic growth to be 3.3%, while Taiwan's GDP is expected to grow 3%. Although 3% is slightly below average, growth of Taiwan is tied with that of Hong Kong.

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 is as follow:

Passive Components: Global consumer spending power remains low in 2012, slowing down the development of most electronic industries, and thereby affecting demand for passive components. Industrial Technology Research Institute (ITRI) forecasts global production value decreased 8.5%, with mobile phones and TVs experiencing slowed growth while PC market pronounced a steeper fall, having a knock-on effect on peripheral PC accessories. The slowdown of end markets causes downstream companies to hold lower inventories, which has a direct restriction effect on orders for upstream passive components suppliers. On the bright side, as the market continues to develop new products, new systems and breakthrough technologies, the applications for passive components grew indefinitely. Among all applications, smart phones and tablets are surely two of the most promising markets to drive growth in Taiwan's passive components industry in 2013. The growth is expected to be 3.5%. In addition, Japanese yen has been depreciating since the last quarter of 2012, decreasing the costs of Taiwanese businesses and, in turn, improving gross margins.

Active Components: The Company distributes a variety of semiconductor components, with telecommunication and network IC as the main products. In the year 2012, according to technology research group Gartner, semiconductors industry has been decreasing at a rate of 3%. During the second half of 2012, demand for global semiconductors hasn't recovered as expected, and inventory levels continued to increase due to slowing PC demands, causing oversupply. Entering 2013, semiconductor industry is forecasted to grow 4.5%. Since the amount of semiconductors used in a PC is higher than that of smart phone or tablet, the growth in smart phones and tablets will not be able to offset the loss of semiconductors in the PC market.

However, these new portable devices will rely more on cloud services and computing and storage expansions. These growing demands will be able to drive markets in data centers and communication infrastructure. Moreover, competition of new portable devices and the need for LTE transmission technology in all these devices will be a main factor for the growth in power amplifiers. Looking ahead, these factors will spur growth in the communication industry.

System and Modules: 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, 32-bit MCU will grow 7%. And because of the erosion effect from 32-bit MCU, 8-/16-bit MCUs will experience changes of 1% and -3% in 2013, respectively. The research also points out that although the manufacturing amount of 32-bit MCU will jump 22%, the price is expected to fall 12%. In China, 8-bit still holds the highest share in the market, but recent years most growth experienced by 8-/16-bit products came from the transitional applications for 32-bit products. As consumer demand for high-end products increases and prices for 32-bit products is moving closer to those of 8-/16-bit MCUs, the trend of product upgrades will continue in 2013. Within the next few years, processing power of 32-bit MCUs in automotive applications will exceed 25%, creating growth opportunities in 2013.

Other Components: 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 international brands continues to launch touch notebooks and China continues to develop low-to-mid priced smart phones and tablets, the recovery of end markets is not as strong as expected. IEK predicts global growth in electronic components industry to be 5.1% in 2013, while Taiwan will experience growth of 4.1%, approximately NT\$88.4 billion..

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 brands (such as Microchip, Panasonic, and Skyworks). Having diverse product lines, our customers are spread among different markets such as information, telecommunication, consumer electronics, automotives and industrial component markets. Our main competitors are international passive component manufacturers; in terms of distributed products, Holy Stone is in competition with domestic and foreign IC distributors.

5.1.3. Commitment to Research and Development

5.1.3.1 R&D expenditures during the last fiscal year and as of the first quarter of 2013

Unit: Thousands of NT\$

Item	2012	Up to March 31, 2013
R&D expenditures	136,013	42,937
Net sales	14,607,834	3,314,541
Percentage	0.93%	1.30%

5.1.3.2 Successful development of technologies and products

In connection with industry demand in LED lighting, wireless charging module, high-end power supply, industrial and medical equipments, the Company develops customized specifications on MLCC, related powder materials, manufacturing technologies to reduce energy consumption and waste creation. And in response to future demand on industrial and automotive industries, the Company continues to develop new

specifications on high-reliability capacitors and related manufacturing equipments and technologies. Furthermore, within thermal substrates, the Company has applied for patent on thick- thin-filmed hybrid technology and has started delivering the products to customers.

5.1.4. Short-term and Long-term Development Strategies

5.1.4.1 Promotion Strategies

(1) Short-term

- A. Continuously improve Design Center's customer service quality located in the United States and European countries.
- B. Participate in electronic components exhibition in Taiwan, China, the United States and European countries to expand Holy Stone brand's presence.

(2) Long-term

- A. Strengthen professionalism of technology and marketing within the sales team.
- B. Build up distribution networks in Greater China.
- C. Actively expand distribution networks in Asia.

5.1.4.2 Production Policies

(1) Short-term

- A. Expand production capacity and output for niche products.
- B. Increase production capacity for aluminum nitride thermal substrates.
- C. Increase equipment utilization rate, lower production costs, prioritize niche products to manufacture, and increase profit.

(2) Long-term

- A. Increase employee efficiency, develop automated equipments.
- B. Introduce project management techniques, implement progression on project improvement in the long-term, including yield, cost, bottleneck management, etc.
- C. Increase the share of self-produced material.

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 electronics, automotives and industrial electronics markets. We continue to target the United States and European markets to increase exporting capacity.

Sales Ratio by Geographic Area in 2011 and 2012

Unit: Thousands of NT\$

Area \ Year	2011		2012	
	Gross Sales	Percentage	Gross Sales	Percentage
Taiwan	3,314,938	21.20%	2,998,312	20.53%
China	10,813,222	69.15%	10,075,555	68.97%
U.S.A.	645,665	4.13%	508,421	3.48%
Others	863,255	5.52%	1,025,546	7.02%
Total	15,637,080	100.00%	14,607,834	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\$14,607,834 thousand in 2012. 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	2012	2013 (F)
Desktop Computer	(4.2%)	(4.3%)
Notebook	(3.4%)	0.9%
All PCs	(3.7%)	(1.3%)
Tablet PC	93.5%	69.8%
Smart Phone	43.0%	48.1%
Regular Handset	1.53%	(18.3%)
LED Lighting	75.5%	53.9%

Source: Digitimes, Gartner, IDC; organized by Holy Stone

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. As consumer demands changes with every passing day, so do the electronic industries through developing all types of communication technologies such as LTE, integrating smart consumer devices such as SmartTV, smart medical equipments with built-in portable apps, etc. All electronic products in the market will one by one transition into portable devices (mobile or handheld), and stationary electronic products will gradually phase out. Additionally, as the functions of portable devices increases and diversifies, branded companies rush to gain market share by launching new lines of portable devices one after the other (such as small sized tablets and phablets), with PC brands moving into tablet market being the most apparent transition. China, a country that will soon become the largest smart phone market worldwide, has the most promising future. Researchers predict that this industry will expand over 60% in 2013, creating potential growth for MLCC. In terms of LED lighting, the need and technology for safety weights the most in the market. All products are required to pass international standards such as UL and CE, which is also a factor to drive MLCC growth. Although oversupply still persists, the Company, different from its peers, 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 actively expand market share.

In addition to MLCC, Holy Stone also manufactures tantalum (niobium) capacitors and refines the corresponding production procedures. Currently the main suppliers of tantalum capacitors are in Japan and the United States. 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 noise-cancellation, and high stability and reliability. As electronic components trend to shrink in size with higher efficiency, tantalum (niobium) 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 2013, in addition to growth drivers from portable communication devices, tantalum capacitors with high stability will have even more applications in smart automotive systems and power supply equipments. 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. As branded companies continuously develop new lines of portable devices, IEK predicts production value growth for communication equipment will reach 8.5%. Portable devices still attracts the most attention in 2013, and the expansion of 4G network will also foster new technology applications, related hardware, and products development. In terms of mobile phones, as the era for 4G smart phones arrived, the number of power amplifiers used from 1 used in a single 2G handset to 8 used in today's 4G handsets. Moreover, with one consumer having more than one portable device and replacement period decreasing, the demand for power amplifiers is expected to multiply.

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 smart applications. Automotive and industrial industries still dominate MCU markets. Automotives electronics, specifically, drive growth for 32-bit MCUs. New features in smart automotive systems include advanced GPS, anti-collision system, blind spot sensing, etc. In terms of medical and health, in order to lower the number of walk-in patients at any clinic or hospital and to follow up with patients' condition anytime and anywhere, products similar to "Health-Assistant On-The-Go" emerged, developing new wearable medical devices. Products such as electrocardiographic (ECG) recorder, remote ECG monitoring phone, all are installed with wireless transmission components which require low power consumption, and small size. IMS Research forecasts that users of remote medical services (telecare) will jump from 310,000 in 2012 to 1.8 million people in 2017, a 581% increase. The line-up products that stem from these new demand should not be underestimated. Holy Stone's product lines include all types of product specification. The Company is capable of providing customers total solution, and aims 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 thermal substrates that are applied in high efficiency LED lightings. The abovementioned products being distributed are used in computers, mobile phones and consumer electronics, therefore, the growth of 2013 relies heavily on the development and applications of portable electronics. Within the LED industry, the main growth driver comes from LED lighting application, having approximately 30% share of the total industry, which is higher than large-size LED backlighting due to decrease in demand of notebooks and monitors. As LED light bulbs and fixtures prices are more economic, and lighting efficiency has also increased, penetration for LED lighting grew. According to DisplaySearch's prediction, penetration for LED lighting will increase from 5% in 2012 to 26% in 2013. Global growth is further boosted by the support programs on LED industry provided by Japanese and Chinese governments. 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 competences, advantages and disadvantages of future prospects and responsive strategies

(1) Core competences and Advantages

- A. Penetrative sales channels and complete promotion services
- B. Own technologies of developing high voltage, high capacitance, and special capacitors
- C. Own 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. Main materials rely on imports

Responsive strategies:

- (A) Invest in upstream raw materials development, and communicate with overseas factory with the expectation of possessing capabilities to test and improve materials, as well as the ability to design capacitors with various specifications.
- (B) Increase the number of suppliers and maintain good relationship with existing 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 applications.
- (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 BI System, closely control and monitor inventory levels.

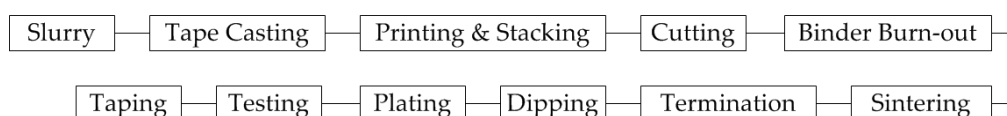
5.2.2. Application of Major Products and its Production Process

5.2.2.1 Major products and its application

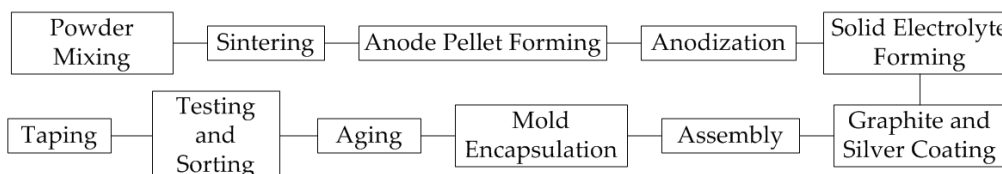
Capacitors are basic components in 3C electronics. In information industry, capacitors are applied to motherboards, VCG cards, sound cards, CD/DVD ROMs and so on. In communications industry, they are applied to mobile phones, fax machines, digital internet services, modems and so on. Furthermore, in consumer electronics industry, they are applied to video cameras, CD audios, optical disk driver,s set-top boxes and so on. In the industrial electronics industry, they are applied to power supplies, inverters, converters and so on. In photonics industry, they are mainly applied to LED lightings. Finally, newly-developed special capacitors are used mainly in military and industrial applications, for example, aerospace.

5.2.2.2 Production process

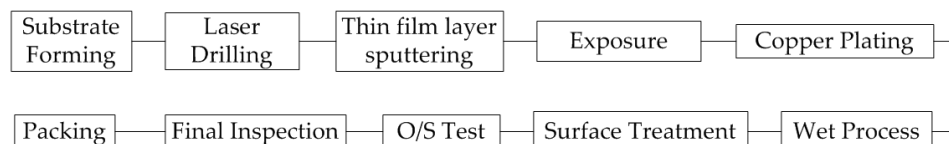
Surface-Mounted MLCC



Polymer Tantalum Capacitor



Thin Film Ceramic Thermal Substrate



Thick Film Ceramic Thermal Substrate



5.2.3. Suppliers of Major Materials

In order to ensure steady supply of electronic components, the Company not only maintains good relationship with existing vendors but also actively develops new vendors 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

5.2.4.1 Major suppliers list (Suppliers having over 10% share of total amount)

Unit: Thousands of NT\$/ %

Item	2011				2012				First quarter of 2013			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	A	3,412,941	31.62	None	A	2,956,753	28.96	None	A	569,485	25.27	None
2	F	1,623,760	15.04	None	F	1,978,279	19.38	None	F	379,876	16.85	None
3	B	1,406,532	13.03	None	B	1,350,921	13.23	None	B	312,743	13.88	None
	Others	4,350,173	40.31	—	Others	3,924,097	38.43	—	Others	991,759	44.00	—
	Total	10,793,406	100.00	—	Total	10,210,050	100.00	—	Total	2,253,863	100.00	—

*The figures above are supplier information from the parent company.

5.2.4.2 Major customers list (Customers having over 10% share of total amount)

Unit: Thousands of NT\$/ %

Item	2011				2012				First quarter of 2013			
	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship	Name	Amount	Percentage of Net Purchase	Relationship
1	c	2,501,737	19.03	None	c	1,870,466	15.02	None	—	—	—	—
	Others	10,645,204	80.97	—	Others	10,584,492	84.98	—	Others	2,866,444	100.00	—
	Total	13,146,941	100.00	—	Total	12,454,958	100.00	—	Total	2,866,444	100.00	—

*The figures above are customer information from the parent company.

5.2.5. Production Quantity & Value

Unit: KPCS/ Thousands of NT\$

	2011			2012		
	Capacity	Production Quantity	Production Value	Capacity	Production Quantity	Production Value
Capacitor	10,000,000	8,395,070	1,710,321	10,000,000	8,763,117	1,604,153

*The figures above are production information from the parent company; production quantity are calculated according to large size capacitors.

5.2.6. Sales Quantity & Value Table

Unit: KPCS/ Thousands of NTS

Year	2011				2012			
	Domestic Sales		Export Sales		Domestic Sales		Export Sales	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Passive Components	1,872,781	923,375	7,685,728	3,056,529	2,226,854	966,260	7,272,876	2,627,647
Active Components	112,655	537,612	462,825	2,268,187	122,159	556,919	617,237	3,057,479
System & Modules	41,167	894,466	89,194	1,212,249	33,518	749,602	80,651	1,078,247
Others	11,556	161,463	487,318	4,093,060	135,912	270,521	333,375	3,148,283
Total	2,038,159	2,516,916	8,725,065	10,630,025	2,518,443	2,543,302	8,304,139	9,911,656

*The figures above are sales information from the parent company.

5.3. Employee Data

Year		2011	2012	As of April 30, 2013
Number of Employees	Direct Employees	361	410	402
	Indirect Employees	454	454	440
	Total	815	864	842
Average Age		35.09	35.27	35.63
Average Years of Employment		6.11	6.26	6.56
Level of Education (%)	Ph.D.	0.12	0.12	0.12
	Master's Degree	7.00	6.25	5.94
	Bachelor's & Associate Degree	52.02	52.77	51.78
	Senior High School	38.04	38.31	39.55
	Others	2.82	2.55	2.61

5.4. Disbursements for Environmental Protection

As of the printed 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 2012 and as of the date of this Annual Report totaled NT\$200,000, 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\$1.3 million and NT\$1 million in pollution prevention equipment to clean waste water and polluted water treatment equipment 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

5.4.3. Expenditures on environmental protection in the next three years

		Unit: Thousands of NT\$	
<u>Item</u>	<u>Content of Expenditure</u>		<u>Estimated Funds</u>
1	Exhaust gas and polluted water disposal equipment	\$	2,300
2	Testing fees for exhaust gas		750
3	Testing fees for polluted water emission		60
4	Disposal fees for polluted water		12,755
5	Disposal fees for waste		14,502
6	Environmental testing fees		491
7	Replacement fees for consumptive materials from exhaust gas		18,000
8	Others		8,550
		\$	57,408

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 employee rights and interests:

5.5.1.1 Employee's welfare package: The Company provides health insurance, regular health checks, 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 a single course to series of courses, the Company continuously raises 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

As 2013.04.30

Contract Classification	Company Name	Contract Duration	Main Contents	Term Limits
Distributorship and Agent Agreement	Hitachi	2013.04.01-2014.03.31	Capacitor	None
Distributorship and Agent Agreement	Skyworks	2012.10.01-2014.09.30	IC	None
Distributorship and Agent Agreement	Microchip	2013.04.01-2014.03.31	IC	None

6. Financial Highlights

6.1. Condensed Balance Sheet and Condensed Income Statement

6.1.1. Condensed Balance Sheet—International Financial Reporting Standards

Unit: Thousands of NT\$

Item	Year	Financial Information from 2008 to 2012					As of March 31, 2013 (Note 1)
		2008	2009	2010	2011	2012	
Current assets		-	-	-	-	-	9,101,093
Property, plant and equipment		-	-	-	-	-	3,006,554
Intangible assets		-	-	-	-	-	581,156
Other assets		-	-	-	-	-	315,703
Total assets		-	-	-	-	-	13,864,739
Current liabilities	Before distribution	-	-	-	-	-	3,568,011
	After distribution	-	-	-	-	-	(Note 2)
Noncurrent liabilities		-	-	-	-	-	297,515
Total liabilities	Before distribution	-	-	-	-	-	3,865,526
	After distribution	-	-	-	-	-	(Note 2)
Equity attributable to parent company		-	-	-	-	-	9,233,963
Common stock		-	-	-	-	-	3,202,175
Capital surplus		-	-	-	-	-	3,691,375
Retained earnings	Before distribution	-	-	-	-	-	2,123,501
	After distribution	-	-	-	-	-	(Note 2)
Other equity		-	-	-	-	-	247,754
Treasury stock		-	-	-	-	-	(30,842)
Non-controlling equity		-	-	-	-	-	765,250
Total stockholders' equity	Before distribution	-	-	-	-	-	9,999,213
	After distribution	-	-	-	-	-	(Note 2)

Note 1: The financial information of Q1 2013 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—International Financial Reporting Standards

Unit: Thousands of NT\$

Item	Year	Financial Information from 2008 to 2012					As of March 31, 2013 (Note 1)
		2008	2009	2010	2011	2012	
Net sales		-	-	-	-	-	3,314,541
Gross profit		-	-	-	-	-	461,698
Operating income (loss)		-	-	-	-	-	158,240
Non-operating income and expenses		-	-	-	-	-	28,437
Income before income tax		-	-	-	-	-	186,677
Net income from continuing operations		-	-	-	-	-	155,982
Loss from discontinued operations		-	-	-	-	-	-
Net income (loss)		-	-	-	-	-	155,982
Other comprehensive gains and losses (net amount after tax)		-	-	-	-	-	123,048
Total comprehensive profit or loss		-	-	-	-	-	279,030
Net income attributable to stockholders of parent company		-	-	-	-	-	168,726
Net income attributable to non-controlling equity		-	-	-	-	-	(12,744)
Comprehensive gains and losses attributable to stockholders of parent company		-	-	-	-	-	246,560
Comprehensive gains and losses attributable to non-controlling equity		-	-	-	-	-	32,470
Earnings per share (NT\$) (Note 2)		-	-	-	-	-	0.53

Note 1: The financial information of 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. Condensed Balance Sheet—Taiwan's General Accepted Accounting Principles

Unit: Thousands of NT\$

Item	Year	Financial Information from 2008 to 2012 (Note 1)					As of March 31, 2013
		2008	2009	2010	2011	2012	
Current assets		6,220,731	6,605,074	7,617,009	7,451,373	7,260,809	-
Funds and long-term investments		2,154,860	2,853,091	3,040,842	2,710,635	2,627,763	-
Property, plant and equipment		2,344,605	2,343,154	2,607,536	2,703,902	2,700,909	-
Intangible assets		-	-	-	-	-	-
Other assets		7,028	6,197	1,938	1,952	2,038	-
Total assets		10,727,224	11,807,516	13,267,325	12,867,862	12,591,519	-
Current liabilities	Before distribution	2,270,835	2,560,709	2,955,069	3,646,157	3,351,281	-
	After distribution	2,719,868	3,422,361	3,691,569	4,284,866	(Note 2)	-
Long-term liabilities		1,137,250	1,016,833	881,364	73,167	150,000	-
Other liabilities		13,012	56,332	56,596	55,436	85,955	-
Total liabilities	Before distribution	3,421,097	3,633,874	3,893,029	3,774,760	3,587,236	-
	After distribution	3,870,130	4,495,526	4,629,529	4,413,469	(Note 2)	-
Common stock		2,806,456	2,872,175	3,202,175	3,202,175	3,202,175	-
Capital surplus		2,741,791	2,763,032	3,652,343	3,626,354	3,622,923	-
Retained earnings	Before distribution	1,720,779	2,065,228	2,035,809	2,060,819	2,077,233	-
	After distribution	1,271,746	1,203,576	1,299,309	1,422,110	(Note 2)	-
Unrealized gain or loss on financial instruments		(29,569)	454,949	528,873	202,477	196,930	-
Cumulative translation adjustments		73,076	34,041	(24,681)	32,119	(27,010)	-
Net Loss Unrecognized as Pension Cost		(6,406)	(15,783)	(20,223)	-	(37,126)	-
Treasury stock		-	-	-	(30,482)	(30,842)	-
Total stockholders' equity	Before distribution	7,306,127	8,173,642	9,374,296	9,093,102	9,004,283	-
	After distribution	6,857,094	7,311,990	8,637,796	8,454,393	(Note 2)	-

Note 1: The financial information of the last five years is reviewed 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.

6.1.4. Condensed Income Statement—Taiwan's General Accepted Accounting Principles

Unit: Thousands of NT\$

Item	Year	Financial Information from 2008 to 2012 (Note 1)					As of March 31, 2013
		2008	2009	2010	2011	2012	
Net sales		12,777,454	11,105,929	12,680,725	13,146,941	12,454,958	-
Gross profit		1,439,615	1,435,479	1,481,670	1,280,861	1,397,759	-
Operating income		693,376	761,308	713,286	551,604	667,264	-
Non-operating income and gains		270,842	320,491	371,945	349,912	194,046	-
Non-operating expenses and losses		149,874	46,746	114,540	106,027	88,632	-
Income before income tax from continuing operations		814,344	1,035,053	970,691	795,489	772,678	-
Net income from continuing operations		674,497	849,611	832,234	761,510	655,123	-
Income from discontinued operations		-	-	-	-	-	-
Extraordinary gain or loss		-	-	-	-	-	-
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		674,497	849,611	832,234	761,510	655,123	-
Earnings per share (NT\$) (Note 2)		2.36	2.96	2.77	2.38	2.05	-

Note 1: The financial information of the last five years is reviewed 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.

6.1.5. Auditors' Opinions

Year	Accounting Firm	CPA	Audit Opinion
2008	KPMG	Ching-Sung Wang and Heng-Sheng Lin	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
2012	KPMG	Ching-Sung Wang and Chia-Hsin Chang	A Modified Unqualified Opinion

6.2. Financial Analysis

6.2.1. Financial analysis—International Financial Reporting Standard

Item (Note 2)		Year	Financial Analysis from 2008 to 2012					As of March 31, 2013 (Note 1)
			2008	2009	2010	2011	2012	
Capital Structure Analysis (%)	Debt Ratio	-	-	-	-	-	27.88	
	Long-term Fund to Fixed Assets Ratio	-	-	-	-	-	342.48	
Liquidity Analysis %	Current ratio	-	-	-	-	-	255.07	
	Quick Ratio	-	-	-	-	-	196.08	
	Times Interest Earned	-	-	-	-	-	34.61	
Operating Performance Analysis	Average Collection Turnover (Times)	-	-	-	-	-	4.26	
	Days Sales Outstanding	-	-	-	-	-	86	
	Average Inventory Turnover (Times)	-	-	-	-	-	5.64	
	Average Payment Turnover (Times)	-	-	-	-	-	10.28	
	Average Inventory Turnover Days	-	-	-	-	-	65	
	Fixed Asset Turnover (Times)	-	-	-	-	-	4.39	
	Total Asset Turnover (Times)	-	-	-	-	-	0.96	
Profitability Analysis	Return on Total Assets (%)	-	-	-	-	-	4.63	
	Return on Equity (%)	-	-	-	-	-	6.38	
	To Paid-in Capital Ratio (%)	Operating Income	-	-	-	-	-	19.77
		Income before income tax	-	-	-	-	-	23.32
	Net Margin (%)	-	-	-	-	-	4.71	
	Earnings Per Share (NT\$) (Note 2)	-	-	-	-	-	0.53	
Cash Flow (%)	Cash Flow Ratio (%)	-	-	-	-	-	6.03	
	Cash Flow Adequacy Ratio (%)	-	-	-	-	-	56.69	
	Cash Flow Reinvestment Ratio (%)	-	-	-	-	-	(3.76)	
Leverage	Operating Leverage	-	-	-	-	-	1.00	
	Financial Leverage	-	-	-	-	-	1.04	

Note 1: The financial information of 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 PP&E Ratio = (Equity + Long-term Liabilities) / Net PP&E

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) PP&E Turnover = Net Sales / Net PP&E

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

(3) Net Margin = Net Income / Net Sales

(4) Earnings Per Share = (Net Income attributable to shareholders of parent company - Preferred Stock Dividend) /
Weighted Average Number of Shares Outstanding (Note 4)

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 PP&E +
Investments + Other Noncurrent Assets + Working Capital (Note 5))

6. Leverage:

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations (Note 6)

(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 PP&E is total PP&E before 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.

Note 7: For foreign companies, aforementioned "ratio to paid-in capital" shall be calculated as "ratio to net value."

6.2.2. Financial analysis—Taiwan's General Accepted Accounting Principles

Item (Note 2)		Year	Financial Analysis from 2008 to 2012 (Note 1)					As of March 31, 2013
		2008	2009	2010	2011	2012		
Capital Structure Analysis (%)	Debt Ratio	31.89	30.78	29.34	29.33	28.49	-	
	Long-term Fund to Fixed Assets Ratio	360.12	392.23	393.31	339.00	338.93	-	
Liquidity Analysis %	Current ratio	273.94	257.94	257.76	204.36	216.66	-	
	Quick Ratio	200.23	202.03	186.85	157.35	166.16	-	
	Times Interest Earned	39.91	66.72	50.14	41.62	42.22	-	
Operating Performance Analysis	Average Collection Turnover (Times)	4.02	3.85	4.12	3.82	3.79	-	
	Days Sales Outstanding	91	95	89	95	96	-	
	Average Inventory Turnover (Times)	6.86	6.26	6.37	6.26	6.57	-	
	Average Payment Turnover (Times)	10.48	9.25	9.04	8.65	9.54	-	
	Average Inventory Turnover Days	53	58	57	58	56	-	
	Fixed Asset Turnover (Times)	5.79	4.74	5.12	4.95	4.61	-	
	Total Asset Turnover (Times)	1.19	0.94	0.96	1.02	0.99	-	
Profitability Analysis	Return on Total Assets (%)	6.66	7.66	6.77	5.97	5.27	-	
	Return on Equity (%)	9.09	10.98	9.49	8.25	7.24	-	
	To Paid-in Capital Ratio (%)	Operating Income	24.71	26.51	22.11	17.23	20.84	-
		Income before income tax	29.02	36.04	30.31	24.84	24.13	-
	Net Margin (%)	5.28	7.65	6.56	5.79	5.26	-	
	Earnings Per Share (NT\$) (Note 2)	2.41	2.96	2.77	2.38	2.05	-	
Cash Flow (%)	Cash Flow Ratio (%)	51.54	52.46	2.49	25.29	30.25	-	
	Cash Flow Adequacy Ratio (%)	94.56	112.80	77.82	71.99	73.28	-	
	Cash Flow Reinvestment Ratio (%)	3.82	8.44	(7.00)	1.79	3.54	-	
Leverage	Operating Leverage	0.98	0.98	1.00	1.00	1.00	-	
	Financial Leverage	1.03	1.02	1.03	1.04	1.03	-	

Note 1: The financial information of the last five years is reviewed 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 4)

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 5))

6. Leverage:

(1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations (Note 6)

(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 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 2012 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, 2013

Supervisor: Tang-Ming Wu

Chung-Yi Yang

March 22, 2013

- 6.4. Financial Report of 2012:** Please refer to P.72 to P.120 in this report.
- 6.5. Consolidated Financial Report of 2012:** Please refer to P.121 to P.166 in this report.
- 6.6. The Company and its affiliated companies have incurred any financial or cash flow difficulties in 2012 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 NTS

Item	Year	2012	2011	Difference	
				Amount	%
Current asset		7,260,809	7,451,373	(190,564)	(2.56)
Long-term investment		2,627,763	2,710,635	(82,872)	(3.06)
Property, plant and equipment		2,700,909	2,703,902	(2,993)	(0.11)
Other assets		2,038	1,952	86	4.41
Total assets		12,591,519	12,867,862	(276,343)	(2.15)
Current liabilities		3,351,281	3,646,157	(294,876)	(8.09)
Long-term liabilities		150,000	73,167	76,833	105.01
Other liabilities		85,955	55,436	30,519	55.05
Total liabilities		3,587,236	3,774,760	(187,524)	(4.97)
Capital stock		3,202,175	3,202,175	-	-
Capital surplus		3,622,923	3,626,354	(3,431)	(0.09)
Retained earnings		2,077,233	2,060,819	16,414	0.80
Unrealized gain or loss on financial instruments		196,930	202,477	(5,547)	(2.74)
Cumulative translation adjustments		(27,010)	32,119	(59,129)	(184.09)
Unrecognized loss on pension funds		(37,126)	-	(37,126)	-
Treasury stock		(30,842)	(30,842)	-	-
Total shareholders' equity		9,004,283	9,093,102	(88,819)	(0.98)

Note: Analysis of significant changes in assets, liabilities and stockholders' equity accounts (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000) :

- (1) An increase of NT\$76,833 thousand in long-term liabilities: Borrowing long-term loans..
- (2) An increase of NT\$30,519 thousand in other liabilities: Increasing pension payables.
- (3) A decrease of NT\$59,129 thousand in cumulative translation adjustments: High fluctuations in foreign currency exchange rate in subsidiaries.
- (4) An increase of NT\$37,126 thousand in unrecognized loss on pension funds: Changes in personnel under old pension plan.

7.2. Operating Results

Operating Results Analysis Table

Unit: Thousands of NT\$

Item \ Year	2012	2011	Difference	%
Net sales	12,454,958	13,146,941	(691,983)	(5.26)
Cost of goods sold	<u>(11,057,199)</u>	<u>(11,866,080)</u>	(808,881)	(6.82)
Gross profit	1,397,759	1,280,861	116,898	9.13
Unrealized gross profit from affiliates	<u>(2,160)</u>	<u>186</u>	(2,346)	(1,261.29)
Realized gross profit	1,395,599	1,281,047	114,552	8.94
Operating expenses	<u>(728,335)</u>	<u>(729,443)</u>	(1,108)	(0.15)
Operating income	667,264	551,604	115,660	20.97
Non-operating income and gains	194,046	349,912	(155,866)	(44.54)
Non-operating expenses and losses	<u>(88,632)</u>	<u>(106,027)</u>	(17,395)	(16.41)
Income before income tax from continuing operations	772,678	795,489	(22,811)	(2.87)
Income tax expenses	<u>(117,555)</u>	<u>(33,979)</u>	83,576	245.96
Net Income from continuing operations	<u>655,123</u>	<u>761,510</u>	(106,387)	(13.97)

Note 1: Analysis of significant changes between 2011 and 2012 (the difference exceeds 20% on the year-over-year basis and NT\$10,000,000):

- (1) An increase of NT\$115,660 thousand in operating income: Increase in gross profit due to lower cost of goods sold in 2012.
- (2) A decrease of NT\$155,866 thousand in non-operating income and gains: Decrease in investment gains under equity method and gain from disposal of investments in 2012.
- (3) An increase of NT\$83,576 thousand in income tax expenses: Gained tax credit from investing in resource-scarce areas in 2011.

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

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
1,703,114	1,013,852	(776,827)	1,940,139	-	-

1. Analysis of cash flow:

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

2. Analysis of liquidity:

An increase of NT\$91,913 thousand in net cash provided by operating activities in 2012 on a year-over-year basis.

Cash flow ratio: 30.25%. Cash adequacy ratio: 73.28%. Cash reinvestment ratio: 3.54%.

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
1,940,139	1,052,454	(1,005,658)	1,986,935	-	-

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	2010.12.31	137,250	-	137,351	-	-	-
Machinery and equipment	Corporate bond issuance and cash capital increase implement	2012.03.31	1,358,570	333,921	152,979	401,957	253,197	216,516

7.4.2. Expected Future Benefit

1. Strengthen financial structure, reduce cash outflow from 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 2012

Item	Amount (Thousands of NT\$)	Policy	Root Cause of Profit or Loss	Improvement Action	Investment Plans
Holy Stone Holdings Co., Ltd.	NT\$13,293	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\$15,698	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 2012 and as of printed date of this Annual Report:

Unit: NT\$ thousands

Item	2012	As of March 31, 2013
Interest Expense	24,604	5,554
Gain (loss) on Foreign Exchange	32,815	(19,875)

Source: Financial statement of 2011 has been reviewed by CPA

Due to low interest rate in the currency 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 both only 0.17% of net sales in 2012 and as of March 31, 2013; 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 through 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 2012. The Company's Endorsement & Guarantee were NT\$585,600 thousand and NT\$597,375 thousand on December 31, 2012 and as of the printed date of this annual report, respectively; the Company's loaning of funds was 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\$130,000 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 during the most recent fiscal year. 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

During the most recent fiscal year 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

During the most recent fiscal year and as of the date of this Annual Report, the Company had no plans in expanding capacity.

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

During the most recent fiscal year and as of the date of this Annual Report, the Company had no such risk.

7.6.11. Risks Associated with Change in Management

During the most recent fiscal year 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 the two most recent fiscal years and as of the date of this Annual Report.

7.6.13. Other Material Risks

During the most recent fiscal year 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

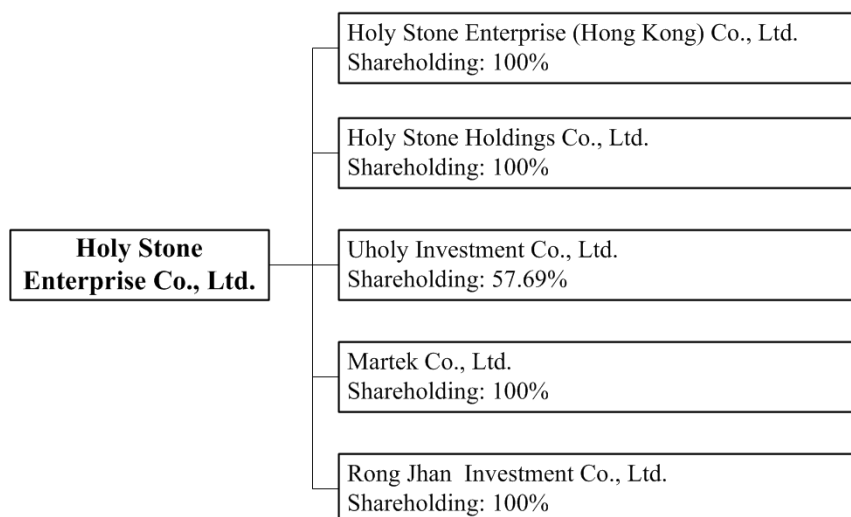
8. Special Notes

8.1. Affiliates

8.1.1. Affiliates Consolidated Operating Report

8.1.1.1 Holy Stone affiliated companies chart

as of 2012.12.31



8.1.1.2 Holy Stone affiliated companies

Unit: NT\$

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	10F-10, No. 57, Lane 69, Jingyèèr Rd. Zhongshan District, Taipei City, Taiwan	NTD 390,000,000	Investment activities
Martek Co., Ltd.	2008.02	3F-1, No. 329, Lung Jiang Road, Zhong Shan District, Taipei City, Taiwan	NTD 85,000,000	Wholesaling of electronic appliances, precision instruments, communication equipment, and electronic materials
Rong Jhan Investment Co., Ltd.	2008.02	1F., No.56, Sec. 2, Huanshan Rd., Neihu District, Taipei City, Taiwan	NTD 550,000,000	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 2012.12.31

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	550,000,000/ 55,000,000	100%
	Supervisor	Representative of Holy Stone: Yu-Min Wu	550,000,000/ 55,000,000	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	448,719	249,035	199,684	863,923	22,572	30,114	2.62
Holy Stone Holdings Co., Ltd. (Note 2)	841,951	2,074,185	1,130,081	944,104	2,694,966	(44,417)	12,366	0.46
Uholy Investment Co., Ltd. (Note 2)	390,000	895,272	44,583	850,689	250,947	46,615	(18,434)	(0.47)
Rong Jhan Investment Co., Ltd. (Note 2)	550,000	894,207	165,387	728,820	647,116	20,505	13,253	0.24
Martek Co., Ltd. (Note 2)	85,000	151,235	26,819	124,415	169,211	21,544	18,247	2.15

Note 1: Foreign exchange rates were NT\$29.04 and NT\$29.57 for US\$1 in Balance Sheet and Income Statement, respectively.

Note 2: Information from affiliated companies are consolidated.

8.2. Private Placement Securities in the most recent fiscal year 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 the most recent fiscal year and as of the Date of this Annual Report

None.

8.4. Other Necessary Supplement: None.

8.5. Any Events in the most recent fiscal year 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

Holy Stone held a Board meeting on May 8, 2013 and reached a proposal for a capital reduction in the aim to place funds into more efficient use, raise shareholders return on equity and the Company's earnings per share. Cash amount of NT\$3.00 per share will be refunded to shareholders. A resolution shall be reached during Annual General Shareholders' Meeting in the morning of June 14, 2013.

The level of capital reduction is estimated to be 30%, NT\$960 million. The number of shares estimated to be cancelled is 96 million, and the paid-in capital after the reduction is estimated to be NT\$2,241,522,180.

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors and Shareholders
Holy Stone Enterprise Company Limited

We have audited the accompanying balance sheets of Holy Stone Enterprise Company Limited as of December 31, 2012 and 2011, 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, 2012 and 2011, the long-term equity investment amounts accounted under equity method were NT\$1,190,715 thousand and NT\$1,321,523 thousand; the cumulative translation adjustments were (NT\$21,733) thousand and (NT\$13,563) thousand, and the related net investment gains of NT\$43,803 thousand and NT\$133,779 thousand for the year ended December 31, 2012 and 2011. The related information of investee companies recognized for certain investee company accounted for under the equity method was based on 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, 2012 and 2011, 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, 2012 and 2011, and have expressed an unqualified opinion on the consolidated financial statements.

KPMG

Accountants:

Mr. Ching-Sung Wang

Mr. Chia-Hsin Chang

Taipei, Taiwan
Republic of China

March 22, 2013

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

Balance Sheets

December 31, 2012 and 2011

(Expressed in Thousands of New Taiwan Dollars)

	12.31.2012		12.31.2011			12.31.2012		12.31.2011	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and Stockholders' Equity				
Current Assets:					Current Liabilities:				
Cash and Cash Equivalents (Note 4.1)	\$ 1,940,139	16	1,703,114	13	Short-term Loans (Note 4.9)	\$ 1,723,943	13	1,186,661	9
Financial Assets at Fair Value through Profit or Loss – Current (Note 4.2 and 4.11)	386,496	3	244,101	2	Financial Liabilities at Fair Value through Profit or Loss – Current (Note 4.2 and 4.11)	1,417	-	3,980	-
Notes and Accounts Receivable, net (Note 4.3)	2,253,940	18	2,372,162	18	Notes and Accounts Payable	1,003,084	8	1,248,925	10
Receivables from Related Parties (Note 5)	777,407	6	1,166,041	9	Payables to Related Parties (Note 5)	77,775	1	66,678	1
Other Financial Assets – Current (Note 5 and 6)	177,005	1	200,334	2	Income Tax Payable	16,996	-	10,000	-
Inventories, Net (Note 4.4)	1,663,340	13	1,703,965	13	Accrued Expenses and Other Current Liabilities (Note 5)	353,599	3	415,717	3
Prepaid Expenses and Other Current Assets (Note 4.13)	62,482	-	31,656	-	Current Portion of Corporate Bonds (Note 4.11)	101,300	1	567,863	4
Held-for-sale Noncurrent Assets (Note 4.6)	-	-	30,000	-	Current Portion of Long-term Debt (Note 4.10)	73,167	1	146,333	1
Total Current Assets	7,260,809	57	7,451,373	57	Total Current Liabilities	3,351,281	27	3,646,157	28
Funds and Investments:					Long-term Liabilities				
Long-term Equity Investments under Equity Method (Note 4.5 and 5)	2,256,658	18	2,312,826	18	Long-term Bank Loans Payable (Note 4.10)	150,000	1	73,167	1
Available-for-sale Financial Assets – Noncurrent (Note 4.2)	71,105	1	97,809	1	Total Long-term Liabilities	150,000	1	73,167	1
Financial Assets Carried at Cost - Noncurrent (Note 4.2)	300,000	2	300,000	2	Other Liabilities:				
Total Funds and Investments	2,627,763	21	2,710,635	21	Accrued Pension Liabilities (Note 4.12)	42,062	-	7,810	-
Property, Plant and Equipment (Note 4.7 and 5):					Deferred Income Tax Liabilities - Noncurrent (Note 4.13)	42,627	-	47,358	-
Land	597,530	5	597,530	5	Other Liabilities	1,266	-	268	-
Buildings	1,187,583	10	1,139,806	9	Total Other Liabilities	85,955	-	55,436	-
Machinery and Equipment	1,837,898	15	1,611,809	13	Total Liabilities	3,587,236	28	3,774,760	29
Leasing Assets	47,568	-	47,568	-	Stockholders' Equity (Note 4.5, 4.11, 4.12 and 4.14):				
Other Equipment	236,027	2	216,941	2	Common Stock	3,202,175	25	3,202,175	25
Subtotal	3,906,606	32	3,613,654	29	Capital Surplus	3,622,923	29	3,626,354	28
Less: Accumulated Depreciation	(1,358,876)	(11)	(1,135,769)	(9)	Retained Earnings:				
Construction in progress and Prepayments for Equipment	153,179	1	226,017	2	Legal Reserve	936,212	7	860,061	7
Net Property, Plant and Equipment	2,700,909	22	2,703,902	22	Unappropriated Earnings	1,141,021	9	1,200,758	9
Other Assets (Note 4.8)	2,038	-	1,952	-		2,077,233	16	2,060,819	16
					Others:				
					Cumulative Translation Adjustments	(27,010)	-	32,119	-
					Net Loss Not Recognized as Pension Cost	(37,126)	-	-	-
					Unrealized Gain or Loss on Financial Instruments	196,930	2	202,477	2
					Treasury Stock	(30,842)	-	(30,842)	-
						101,952	2	203,754	2
					Total Stockholders' Equity	9,004,283	72	9,093,102	71
					Commitments and Contingencies (Note 5 and 7)				
Total Assets	\$ 12,591,519	100	12,867,862	100	Total Liabilities and Stockholders' Equity	\$ 12,591,519	100	12,867,862	100

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

English Translations of Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED

Statements of Income

For the years ended December 31, 2012 and 2011

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

	2012		2011	
	Amount	%	Amount	%
Gross Sales	\$ 12,578,723	101	13,264,175	101
Less: Sales Returns	(123,765)	(1)	(117,234)	(1)
Net Sales (Note 5)	12,454,958	100	13,146,941	100
Cost of Goods Sold (Note 4.4 and 5)	(11,057,199)	(89)	(11,866,080)	(90)
Gross Profit	1,397,759	11	1,280,861	10
Add (Less): (Un)realized Gross Profit from Affiliates (Note 5)	(2,160)	-	186	-
Realized Gross Profit	1,395,599	11	1,281,047	10
Operating expenses:				
Selling and Administrative (Note 5)	(604,118)	(5)	(626,096)	(5)
Research and Development (Note 5)	(124,217)	(1)	(103,347)	-
	(728,335)	(6)	(729,443)	(5)
Operating Income	667,264	5	551,604	5
Non-operating Income and Gains:				
Interest Income	12,475	-	9,295	-
Investment Income Recognized under Equity Method (Note 4.5 and 5)	75,344	1	160,095	1
Dividend Income	11,992	-	12,020	-
Gain on Disposal of Investments, net	31,856	-	152,971	1
Net Gain on Foreign Exchange	-	-	6,515	-
Valuation Gain on Financial Assets (Note 4.2)	51,702	-	-	-
Others (Note 5)	10,677	-	9,016	-
	194,046	1	349,912	2
Non-operating Expenses and Losses:				
Interest Expenses (Note 4.11)	(18,745)	-	(19,586)	-
Net Loss on Foreign Exchange	(39,775)	-	-	-
Valuation Loss on Financial Assets (Note 4.2 and 4.11)	-	-	(2,970)	-
Impairment Loss (Note 4.6)	-	-	(8,928)	-
Valuation Loss on Financial Liabilities (Note 4.2 and 4.11)	(17,947)	-	(71,063)	(1)
Others	(12,165)	-	(3,480)	-
	(88,632)	-	(106,027)	(1)
Income before Income Tax	772,678	6	795,489	6
Income Tax Expense (Notes 4.13)	(117,555)	(1)	(33,979)	-
Net Income	\$ 655,123	5	761,510	6
	Before	After	Before	After
	Income Tax	Income Tax	Income Tax	Income Tax
Earnings per Share (Notes 4.15) (NT Dollars)				
Basic Earnings per Share	\$ 2.42	2.05	2.49	2.38
Diluted Earnings per Share	\$ 2.33	1.98	2.35	2.25

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, 2012 and 2011

(Expressed in Thousands of New Taiwan Dollars)

	Retained Earnings				Other adjusted items on Stockholders' Equity				Total Stockholders Equity
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Net loss not recognized as pension cost	Unrealized gains (loss) on financial instruments	Treasury Stock	
Beginning Balance, January 1, 2011	\$ 3,202,175	3,652,343	776,837	1,258,972	(24,681)	(20,223)	528,873	-	9,374,296
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 1):									
Legal Capital Reserve	-	-	83,224	(83,224)	-	-	-	-	-
Cash Dividends of Common Stock	-	-	-	(736,500)	-	-	-	-	(736,500)
Changes in Unrealized Gains (Losses) on Available-for-sale Financial Assets	-	-	-	-	-	-	(181,268)	-	(181,268)
Changes in Net Loss not Recognized as Pension Cost	-	-	-	-	-	20,223	-	-	20,223
Changes in Foreign Exchange Gain (Loss) due to Translation of Foreign Currency on Financial Statements	-	-	-	-	56,800	-	-	-	56,800
Changes in Equities of Long-term Investments	-	(19,417)	-	-	-	-	(145,128)	-	(164,545)
Ending Balance, December 31, 2011	3,202,175	3,626,354	860,061	1,200,758	32,119	-	202,477	(30,842)	9,093,102
Derecognized Convertible Bonds	-	(5,180)	-	-	-	-	-	-	(5,180)
Net Income	-	-	-	655,123	-	-	-	-	655,123
Appropriations of Prior Year's Earnings (Note 2):									
Legal Capital Reserve	-	-	76,151	(76,151)	-	-	-	-	-
Cash Dividends of Common Stock	-	-	-	(638,709)	-	-	-	-	(638,709)
Changes in Unrealized Gains (Losses) on Available-for-sale Financial Assets	-	-	-	-	-	-	(12,776)	-	(12,776)
Changes in Net Loss Not Recognized as Pension Cost	-	-	-	-	-	(37,126)	-	-	(37,126)
Changes in Foreign Exchange Gain (Loss) due to Translation of Foreign Currency on Financial Statements	-	-	-	-	(59,129)	-	-	-	(59,129)
Changes in Equities of Long-term Investments	-	1,749	-	-	-	-	7,229	-	8,978
Ending Balance, December 31, 2012	\$ 3,202,175	3,622,923	936,212	1,141,021	(27,010)	(37,126)	196,930	(30,842)	9,004,283

Note 1: Bonus to directors and supervisors of NT\$21,931 thousand and bonus to employees in cash of NT\$116,964 thousand have been deducted from statements of income of 2010.

Note 2: Bonus to directors and supervisors of NT\$19,818 thousand and bonus to employees in cash of NT\$105,693 thousand have been deducted from statements of income of 2011.

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, 2012 and 2011

(Expressed in Thousands of New Taiwan Dollars)

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Net Income	\$ 655,123	761,510
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation	256,004	225,196
Amortization - Discount on Corporate Bonds Payable	4,183	7,948
Loss (Gain) on Expiration of Bonds	8,455	(2,858)
Inventory Valuation, Scrap, and Obsolescence Loss	10,607	15,122
Investment Gain Accounted for sing Equity Method	(75,344)	(160,095)
Cash Dividends from Investee under Equity Method	69,250	145,000
Loss (Gain) on Disposal of Property, Plant and Equipment	(1,117)	2,630
Gain on Disposal of Long-term Equity Investments under Equity Method	-	(2,690)
Gain on Disposal of Investments, net	(31,856)	(150,281)
Impairment Loss on Non-Financial Assets	-	8,928
Unrealized (Realized) Gain from Inter-Affiliate Accounts	2,160	(186)
Deferred Income Tax Expense (Income)	(1,150)	22,143
Changes in Operating Assets and Liabilities:		
Financial Assets at Fair Value through Profit or Loss	(142,395)	66,119
Notes and Accounts Receivable	118,222	(79,483)
Receivables from Related Parties	388,634	(118,874)
Other Financial Assets - Current	23,329	(56,494)
Inventories	30,018	370,810
Prepaid Expenses and Other Current Assets	(22,297)	33,236
Financial Liabilities at Fair Value through Profit or Loss	1,680	4,343
Notes and Accounts Payable	(245,841)	(129,796)
Payables from Related Parties	11,097	18,861
Income Tax Payable	6,996	(50,875)
Accrued Expenses and Other Current Liabilities	(49,032)	(9,577)
Accrued Pension Liabilities	(2,874)	1,302
Net Cash Provided from Operating Activities	<u>1,013,852</u>	<u>921,939</u>
Cash Flows from Investing Activities:		
Proceeds from Sale of Available-for-sale Financial Assets	45,784	218,203
Proceeds from Return of Capital by Investees under Equity Method	-	10,500
Proceeds from Sale of Noncurrent Assets Held for Sale	30,000	-
Additions to Property, Plant and Equipment	(302,982)	(366,037)
Proceeds from Sale of Property, Plant and Equipment	35,842	2,413
Increase in Other Assets	(86)	(14)
Net Cash Used in Investing Activities	<u>(191,442)</u>	<u>(134,935)</u>
Cash Flows from Financing Activities:		
Increase in Short-term Loans	537,282	291,322
Redemption of Corporate Bond	(488,623)	(106,026)
Proceeds from Long-term Borrowings	150,000	-
Repayment of Long-term Loans	(146,333)	(146,333)
Increase in Refundable Deposits	998	-
Cash Dividends	(638,709)	(736,500)
Cost of Buyback Treasury Stock	-	(30,842)
Net Cash Used in Financing Activities	<u>(585,385)</u>	<u>(728,379)</u>
Net Increase in Cash and Cash in Banks	237,025	58,625
Cash and Cash in Banks at Beginning of Period	1,703,114	1,644,489
Cash and Cash in Banks at End of Period	<u>\$ 1,940,139</u>	<u>1,703,114</u>
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	\$ <u>14,393</u>	<u>11,660</u>
Income Tax Paid	\$ <u>50,255</u>	<u>124,166</u>
Supplemental Information on Non-Cash Investing and Financing Activities:		
Current Portion of Long-term Debt	\$ <u>73,167</u>	<u>714,196</u>
Unrealized Valuation Loss (Gain) on Financial Instruments	\$ <u>12,776</u>	<u>181,268</u>
Changes in Unrealized Loss (Gain) on Financial Instruments from Long-term Equity Investments	\$ <u>(7,229)</u>	<u>145,128</u>
Changes in Capital Surplus from Long-term Equity Investments	\$ <u>(1,749)</u>	<u>19,417</u>
Cash Used in Acquisition of Property, Plant and Equipment		
Acquisition of Property, Plant and Equipment	\$ (287,736)	(365,533)
Increase (Decrease) in Payables on Equipment	(15,246)	(504)
Payment in Cash	\$ <u>(302,982)</u>	<u>(366,037)</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

Holy Stone Enterprise Company Limited
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(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 MLCC, tantalum (niobium) capacitors, integrated circuits, modules, and other electronic components. As of December 31, 2012 and 2011, the Company had 864 and 815 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 under shareholders' equity.

2.3 Classification of Current and Noncurrent Assets and Liabilities

Current assets are cash and cash equivalents, assets held for trading purposes, or assets expected to be converted to cash, sold or consumed within twelve months from the date on the balance sheet; others are all noncurrent assets.

Current liabilities are liabilities held for trading purposes or obligations that will be settled within twelve months from the date on the balance sheet; 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 (individual assets or cash-generating accounts except goodwill) on Balance Sheet, and record impairment losses when the receivable amounts are less than the asset's 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 held for trading purposes includes those of short-term sales and repurchase and derivatives, should be classified in this category except those assigned and which are valid hedging instruments. Recognized at fair value, any profit or loss should be recognized on the current period income statement. Evaluation after acquisition is based on fair value, and changes are recorded as current 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 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 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

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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 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

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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' Compensation

Based on the interpretation issued by the Accounting Research and Development Foundation of the R.O.C., the Company was requested to record the drafted bonus paid to directors, supervisors and employees as an item under operating expense 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

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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 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

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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>2012.12.31</u>	<u>2011.12.31</u>
Cash on hand	\$ 827	1,405
Current deposit	1,564,508	1,354,201
Checking account	2,540	508
Deposit account	<u>372,264</u>	<u>347,000</u>
	<u>\$ 1,940,139</u>	1,405

4.2 Financial Instrument

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

	<u>2012.12.31</u>	<u>2011.12.31</u>
Foreign stocks	\$ 20,256	12,234
Bonds	311,330	224,712
Open-ended funds	54,715	7,155
Foreign exchange swap contracts	<u>195</u>	<u>-</u>
Total	<u>\$ 386,496</u>	<u>244,101</u>

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

	<u>2012.12.31</u>	<u>2011.12.31</u>
Foreign exchange swap contracts	\$ -	107
Redeem (buy) and put—convertible bonds payable	<u>1,417</u>	<u>3,873</u>
Total	<u>\$ 1,417</u>	<u>3,980</u>

Financial assets and liabilities recognized at fair value through profit or loss as of December 31, 2012 and 2011 were NT\$35,543 thousand and NT(\$42,818) thousand, respectively.

Derivatives are hedging instruments to avoid exchange risks and interest risks from operating, financing, and investing activities. As of December 31, 2012 and 2011, details of derivatives not applied to hedging accounting are as follows:

Foreign exchange swap contracts

	<u>2012.12.31</u>	<u>2011.12.31</u>
	<u>Principal(USD)</u>	<u>Principal(USD)</u>
	<u>Term</u>	<u>Term</u>
\$	2,200,000	2,900,000
	2012.12.24~2013.01.22	2011.12.29~2012.01.17
	5,340,000	9,400,000
	2012.2.24~2013.01.22	2011.12.29~2012.01.17
	9,400,000	3,200,000
	2012.12.24~2013.01.22	2011.12.29~2012.01.17
	<u>-</u>	<u>5,340,000</u>
	<u>2011.12.29~2012.01.17</u>	
	<u>\$ 16,940,000</u>	<u>20,840,000</u>

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

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4.2.3 Available-for-sale financial assets - noncurrent

	<u>2012.12.31</u>	<u>2011.12.31</u>
GSI Technology Inc. (GSIT)	\$ 71,105	82,425
eGalax_eMPIA Technology Inc. (EETI)	-	15,384
Total	\$ 71,105	97,809

4.2.4 Financial assets carried at cost - noncurrent

	<u>2012.12.31</u>	<u>2011.12.31</u>
Preferred stock – China Trust Commercial Bank	\$ 300,000	300,000

4.3 Notes and Accounts Receivable

Details:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Notes receivable	\$ 82,420	88,472
Accounts receivable	2,224,270	2,336,968
Allowance for collectible accounts	(52,750)	(53,278)
Total	\$ 2,253,940	2,372,162

As of December 31, 2012 and 2011, 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>2012.12.31</u>	<u>2011.12.31</u>
Beginning balance	\$ 53,278	53,989
Write-offs for current period	(528)	(711)
Ending balance	\$ 52,750	53,278

4.4 Inventories

Details:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Merchandise	\$ 1,184,699	1,241,638
Less: Allowance	(73,979)	(79,020)
Subtotal	1,110,720	1,162,618
Finished goods	285,483	276,079
Less: Allowance	(26,845)	(25,210)
Subtotal	258,638	250,869
Semi-finished goods	81,256	113,890
Less: Allowance	(16,944)	(18,668)
Subtotal	64,312	95,222
Work in process	123,271	70,971
Less: Allowance	(3,756)	(2,247)
Subtotal	119,515	68,724
Raw materials	110,914	124,461
Less: Allowance	(5,130)	(2,731)
Subtotal	105,784	121,730
Supplies	4,532	4,896
Less: Allowance	(161)	(94)
Subtotal	4,371	4,802
Total	\$ 1,663,340	1,703,965

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For the years ended December 31, 2012 and 2011, the Company recognized related losses on inventories of NT\$10,063 thousand and NT\$14,360 thousand, respectively, which include changes in inventories of NT\$1,155 thousand from the offset of previous inventory net realizable value that was lower than cost recorded under operating expense. For 2011, there were changes in inventory of NT\$4,767 thousand in 2011 from the write-up of net realizable value and losses on inventories charged.

4.5 Long-term Equity Investments

Details:

<u>Investee Company</u>	<u>% of Ownership</u>	<u>2012.12.31</u>		<u>2012 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	199,684	30,11
Holy Stone Holdings Co., Ltd.	100.00%	841,951	941,527	13,29
Uholy Investments Co. Ltd.	57.69%	225,000	399,753	(2,005)
Martek Co., Ltd.	100.00%	20,000	124,416	18,24
Rong Jhan Investments Co., Ltd.	100.00%	340,000	591,278	15,69
		<u>\$ 1,475,997</u>	<u>2,256,658</u>	<u>75,34</u>

<u>Investee Company</u>	<u>% of Ownership</u>	<u>2011.12.31</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%	340,000	575,968	50,739
		<u>\$ 1,475,997</u>	<u>2,312,826</u>	<u>160,095</u>

4.5.1 For the years ended December 31, 2012 and 2011, equity in earnings/losses of equity method investees was a net change of NT\$1,749 thousand and (NT\$19,417) thousand, respectively.

4.5.2 For the years ended December 31, 2012 and 2011, long-term investments accounted by equity method have not yet provided pledged collaterals.

4.6 Noncurrent Asset Held for Sale

Details:

	<u>2011.12.31</u>
Machinery and equipment	\$ 66,656
Less: Accumulated depreciation	(27,728)
Accumulated impairment	(8,928)
	<u>\$ 30,000</u>

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.

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4.7 Property, plant and equipment

Details on assets leased to others of the Company as of December 31, 2012 and 2011 are summarized as follows:

	<u>2012.12.31</u>	<u>2011.12.31</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>(5,239)</u>	<u>(4,871)</u>
	<u>\$ 42,329</u>	<u>42,697</u>

4.8 Idle Assets

Details on idle assets of the Company as of December 31, 2012 and 2011 are summarized as follows:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Machinery and equipment	\$ 58,163	61,238
Other equipment	<u>-</u>	<u>7,695</u>
Subtotal	58,163	68,933
Less: Accumulated depreciation	(4,009)	(7,854)
Accumulated impairment	<u>(54,154)</u>	<u>(61,079)</u>
Total	<u>\$ -</u>	<u>-</u>

4.9 Short-term Loans

Details:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Unsecured loans	<u>\$ 1,723,943</u>	<u>1,186,661</u>
Interest rate	<u>0.75%~1.297%</u>	<u>0.82%~1.40%</u>

As of December 31, 2012 and 2011, the Company's credit lines on short-term loans which have not been used from financial institutions were NT\$2,007,290 thousand and NT\$2,040,385 thousand, and the Company does not have to pay any commitment fees for these credit lines.

4.10 Long-term Liabilities

Details:

<u>Creditor</u>	<u>Line of Credit and Key Terms</u>	<u>2012.12.31</u>	<u>2011.12.31</u>
Yuanta, Neihu Branch	With interest paid monthly from June 2008 to June 2013, and principal paid once per three months based on the average amortization method in the third year, meaning a two-year deferred period of principal payment.	\$ 73,167	219,500
Huanan, Hsin Wei Branch	With interest paid monthly from June 2012 to June 2017, and principal paid once per three months based on the average amortization method in the third year, meaning a two-year deferred period of principal payment.	100,000	-
Taipei Fubon	With interest paid monthly from June 2012 to June 2017, amount is due for settlement.	50,000	-
Total		223,167	219,500
Less: Current portion		<u>(73,167)</u>	<u>(146,333)</u>
		<u>\$ 150,000</u>	<u>73,167</u>

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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 1.3330 percent to 1.457 percent and 1.3002 percent to 1.3118 percent in 2012 and 2011, respectively.

4.10.3 As of December 31, 2012 and 2011, long-term loans not used by the Company were NT\$600,000 thousand and NT\$0, respectively, and the Company does not have to pay any commitment fees for these credit lines.

4.10.4 As of December 31, 2012, the loan balance should be paid as follows:

<u>Period</u>	<u>Amount</u>
2013.01.01 ~ 2013.12.31	\$ 73,167
2014.01.01 ~ 2014.12.31	66,667
2015.01.01 ~ 2015.12.31	33,333
2016.01.01 ~ 2016.12.31	33,333
2017.01.01 ~ 2017.12.31	16,667
	<u>\$ 223,167</u>

4.11 Bonds Payable

Details:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Total proceeds from issuing convertible bonds	\$ 700,000	593,200
Cumulative amount redeemable	(595,500)	-
Discount in bonds payable	(3,200)	(25,337)
Ending balance of bonds payable	<u>101,300</u>	<u>567,863</u>
Less: Put option performed within the year	<u>(101,300)</u>	<u>(567,863)</u>
	<u>\$ -</u>	<u>-</u>
Derivative financial instrument—redemption (buy) and put options (financial assets at fair value through gain or loss – current)	<u>\$ (1,417)</u>	<u>(3,873)</u>
Equity components (included in capital reserve-options)	<u>\$ 16,909</u>	<u>95,986</u>
	<u>2012</u>	<u>2011</u>
Derivative financial assets—redemption (buy) and put options (Recorded under valuation loss on financial liabilities)	<u>\$ 1,788</u>	<u>31,215</u>
Interest Expense	<u>\$ 4,183</u>	<u>7,948</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 14, 2012, the convertible price is NT\$34.38.

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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, 2012 and 2011.

	<u>2012.12.31</u>	<u>2011.12.31</u>
Benefit obligation:		
Vested benefit obligation	\$ (22,127)	(14,917)
Nonvested benefit obligation	(102,996)	(55,308)
Accumulated benefit obligation	(125,123)	(70,225)
Additional benefits based on future salaries	(16,779)	(8,486)
Projected benefit obligation	(141,902)	(78,711)
Fair value of plan assets	83,061	84,894
Funded status	(58,841)	6,183
Unrecognized loss (gain) pension plan	53,905	(13,993)
Additional accrued pension liabilities	(37,126)	-
Accrued pension liabilities	<u>\$ (42,062)</u>	<u>(7,810)</u>

ii. Components of net pension cost are as follows:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 1,411	2,086
Interest cost	1,574	2,792
Actual return on pension plan assets	(1,698)	(1,805)
Pension gain (loss) of amortized pension	(500)	1,919
Net pension cost	<u>\$ 787</u>	<u>4,992</u>

iii. Actuarial assumptions are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate used in determining present values	2.00%	2.25%
Salary adjustment rate	1.50%	1.50%
Expected rate of return on planned pension assets	2.00%	2.25%

4.12.2 Defined contribution pension plan adoption:

For the year ended December 31, 2012 and 2011, pension cost was NT\$23,976 thousand and NT\$23,431 thousand, respectively.

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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current income tax expense	\$ 118,705	11,836
Deferred income tax expense (income)	(1,150)	22,143
Income tax expense	<u>\$ 117,555</u>	<u>33,979</u>

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The components of deferred income tax expense (benefit) for the years ended December 31, 2012 and 2011, are as follows:

	2012	2011
Unrealized loss (gain) on foreign exchange, net	\$ (8,902)	16,149
Investment gains under equity method, net	7,380	6,128
Devaluation and obsolescence losses on allowances for inventory	196	(810)
Others	176	676
	\$ (1,150)	22,143

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, 2012 and 2011, as follows:

	2012	2011
Estimated income tax expense calculated based on financial income before tax	\$ 131,355	135,233
Income from securities selling	(2,247)	(16,747)
Tax-exempt income and investment tax credit	(12,891)	(81,208)
Additional tax expense of 10% imposed on undistributed earnings	4,665	-
Others	(3,327)	(3,299)
	\$ 117,555	33,979

4.13.4 The components of temporary differences and individual effects on deferred income tax assets (liabilities) as of December 31, 2012 and 2011 are as follows:

	2012.12.31	2011.12.31
Current deferred income tax assets:		
Valuation and obsolescence loss on allowance for inventory	\$ 21,559	21,755
Unrealized loss on foreign exchange, net	1,611	-
Others	4,562	4,739
Current deferred income tax assets	27,732	26,494
Current deferred income tax liabilities:		
Unrealized gain on foreign exchange, net	-	(7,291)
Current deferred income tax assets	-	(7,291)
Net current deferred income tax assets	\$ 27,732	19,203
Noncurrent deferred income tax assets:		
Unrealized impairment loss, net	\$ 7,009	11,901
Cumulative translation adjustments	5,532	-
Valuation allowance	(7,009)	(11,901)
Net noncurrent deferred income tax assets	5,532	-
Noncurrent deferred income tax liabilities:		
Long-term investment income under equity method	(48,159)	(40,779)
Cumulative translation adjustments	-	(6,579)
Noncurrent deferred income tax liabilities	(48,159)	(47,358)
Net noncurrent deferred income tax liabilities	\$ (42,627)	(47,358)

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

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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 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\$10,735 thousand.

4.13.7 The tax authorities have examined income tax returns of the Company through 2010.

4.13.8 The integrated income tax system:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Unappropriated earnings after 1998	<u>\$ 1,141,021</u>	<u>1,200,758</u>
Imputation credit account (ICA) balance	<u>\$ 131,923</u>	<u>105,248</u>
	<u>2012 (Expected)</u>	<u>2011 (Actual)</u>
Actual/ estimated creditable ratio for earnings distribution to R.O.C. citizens	<u>13.05%</u>	<u>16.82%</u>

4.14 Stockholders' Equity

4.14.1 Common Stock and Stock Issuances

As of December 31, 2012 and 2011, 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 capital issued.

4.14.2 Treasury stock

- i. In 2012 and 2011, in compliance with the Securities Exchange Act Section 28-1, the Company bought back common stock of 0 and 863 thousand shares to transfer to employees. As of December 31, 2012, 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 highest amount of shares the Company held from buyback for the period is 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, 2012 and 2011, the components of capital surplus are as follows:

	2012.12.31	2011.12.31
From cash capital increase	\$ 1,687,890	1,687,890
From convertible bonds	1,463,082	1,463,082
From bond options	16,909	95,986
From treasury stock	21,358	11,133
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	22,080	20,331
From expired options	63,672	-
	<u>\$ 3,622,923</u>	<u>3,626,354</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.) Compensation 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.

- vi. The surplus remaining after deductions of items i. to v. could be distributed to the shareholders after

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the resolution is approved in the shareholders' meeting.

For the years ended December 31, 2012 and 2011, the bonuses to employees and compensation 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 2012 and 2011, bonuses to employees were NT\$91,881 thousand and NT\$105,69 thousand, respectively, and compensations to directors and supervisors were NT\$17,228 thousand and NT\$19,818 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 2011 and 2010 earnings was approved at the shareholders' meetings on June 10, 2012 and June 14, 2011, respectively as follows:

	2011	2010
Employee bonuses-stock	\$ 105,693	117,000
Directors' and supervisors' compensation	19,818	22,000
	<u>\$ 125,511</u>	<u>139,000</u>

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. The 2011 appropriation of earnings did not differ from the resolutions approved by the Company's board of directors.

Appropriation of employees' bonus and directors' and supervisors' compensation, 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:

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, 2012 (NTD)	Issuing Way
2006 1 st ESO Plan	2006.07.10	1	5,000,000	2006.08.21	1,500,000	\$ 49.30	29.40	In turns
"		-	-	2007.06.15	3,500,000	58.50	36.70	"
2007 1 st ESO Plan	2007.11.11	1	10,000,000	2007.12.03	10,000,000	50.00	32.80	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, 2012, details of vested options of ESO Plans are as follows:

ESO Plans	Units Granted Issued	Units Actually Issued	Units Converted	Units Expired	Units Before Converted	Duration
2006 1 st ESO Plan	5,000,000	1,500,000	-	1,500,000	-	2006.08.21 ~ 2012.08.20
"	-	3,500,000	-	-	3,500,000	2007.06.15 ~ 2013.06.14
2007 1 st ESO Plan	10,000,000	10,000,000	-	-	10,000,000	2007.12.03 ~ 2017.12.02
Total	\$ 15,000,000	15,000,000	-	1,500,000	13,500,000	

According to standards of No. 70, No. 71 and No.72, issued by the Accounting Research and Development Foundation on March 17, 2003, all enterprises should follow those standards if the granted date or the revised date that they issued their employee stock options were later than January 1, 2004. Pursuant to the Statement of Financial Accounting Standards No.39, "Share-based payment," the aforementioned employee stock options need not be retroactively 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, 2012 and 2011 since market value of stock at measurement date was equal to exercise price.

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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 2012 and 2011. Assumptions used to estimate the fair value of the aforementioned employee stock options are summarized as follows:

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

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

<u>Stock Option</u>	<u>2012</u>		<u>2011</u>	
	<u>Unit (in thousands)</u>	<u>Weighted-aver- age exercise price (NT\$)</u>	<u>Unit (in thousands)</u>	<u>Weighted-aver- age exercise price (NT\$)</u>
Outstanding balance at the beginning of period	15,000	\$ 35.77	15,000	38.27
Option granted	-	-	-	-
Options exercised	-	-	-	-
Option expired	<u>(1,500)</u>	-	<u>-</u>	-
Outstanding balance at the end	<u>13,500</u>	33.81	<u>15,000</u>	35.77
Exercisable balance at the end	<u>11,500</u>	33.98	<u>10,500</u>	35.93
Weighted average fair value of options for the current period	<u>-</u>	-	<u>-</u>	-

(iii) As of December 31, 2012, details of outstanding options of the ESO plans are as follows:

<u>Exercise price (NT\$)</u>	<u>Outstanding stock options as of Dec. 31, 2012</u>			<u>Vested options</u>	
	<u>Units</u>	<u>Remaining vesting period</u>	<u>Exercise price (NT\$)</u>	<u>Units as of 2012.12.31</u>	<u>Exercise price (NT\$)</u>
\$ 36.70	3,500,000	0.45	\$ 36.70	3,500,000	\$ 36.70
32.80	10,000,000	4.93	32.80	8,000,000	32.80

(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>2011</u>	<u>2010</u>
Net income	Net income as reported	\$ 655,123	761,510
	Pro forma net income	655,123	761,510
Basic earnings per share	Basic EPS as reported	2.05	2.38
(NT Dollars)	Pro forma basic EPS	2.05	2.38

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4.15 Earnings per Share

The Company's basic earnings per share and diluted earnings per share of 2012 and 2011 were computed as follows:

	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Basic EPS				
Net income	\$ 772,678	655,123	795,489	761,510
Weighted average number of shares outstanding (in thousand)	319,354	319,354	319,599	319,599
Basic EPS (NT Dollars)	\$ 2.42	2.05	2.49	2.38
Diluted EPS				
Net income	\$ 772,678	655,123	795,489	761,510
Effect of dilution on potential common stock – convertible bonds	4,183	4,183	7,948	7,948
Diluted EPS-net income	\$ 776,861	659,306	803,437	769,458
Weighted-average number of shares outstanding (in thousands)	319,354	319,354	319,599	319,599
Expensing employee bonus	5,469	5,469	5,678	5,678
Employee stock options	-	-	24	24
Domestic convertible bond	8,511	8,511	17,250	17,250
Diluted EPS- weighted-average number of shares outstanding (in thousand)	333,334	333,334	342,551	342,551
Diluted EPS (NT Dollars)	\$ 2.33	1.98	2.35	2.25

4.16 Additional Disclosure on Financial Instruments

4.16.1 Fair value information

As of December 31, 2012 and 2011, the fair value of the Company's financial assets and liabilities is as follows:

	2012.12.31		2011.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 1,940,139	1,940,139	1,703,114	1,703,114
Financial assets at fair value through profit or loss-current	386,496	386,496	244,101	244,101
Notes and accounts receivable (including related parties)	3,031,347	3,031,347	3,538,203	3,538,203
Other financial assets-current	177,005	177,005	200,334	200,334
Available-for-sale financial assets - noncurrent	71,105	71,105	97,809	97,809
Financial assets carried at cost - noncurrent	300,000	(Note)	300,000	(Note)
Financial liabilities:				
Short-term loans	1,723,943	1,723,943	1,186,661	1,186,661
Notes and accounts payable (including related parties)	1,417	1,417	3,980	3,980
Bonds payable (current portion)	1,080,859	1,080,859	1,315,603	1,315,603
Long-term borrowing (including current portion)	101,300	101,300	567,863	567,863

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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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 (including receivables from affiliated parties), 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:

	2012.12.31		2011.12.31	
	<u>Publicly quoted market prices</u>	<u>Fair value based on valuation technique</u>	<u>Publicly quoted market prices</u>	<u>Fair value based on valuation technique</u>
Financial assets:				
Cash and cash equivalents	\$ -	1,940,139	-	1,703,114
Financial assets at fair value through profit or loss-current:	386,301	195	244,101	-
Notes and accounts receivable (including related parties)	-	3,031,347	-	3,538,203
Available-for-sale financial assets - noncurrent	-	177,005	-	200,334
Financial liabilities:	71,105	-	97,809	-
Short-term loans				
Notes and accounts payable (including related parties)	-	1,723,943	-	1,186,661
Bonds payable (current portion)	-	1,417	-	3,980
Long-term borrowing (including current portion)	-	1,080,859	-	1,315,603

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 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.

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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. As of December 31, 2012, 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\$19,471 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")	First-tier subsidiary
Holy Stone Holdings Co., Ltd. ("Holy Stone Holdings")	First-tier subsidiary
MARTEK CO., LTD. ("MARTEK")	First-tier subsidiary
Holy Stone Polytech Co., Ltd. ("HPC")	Second-tier subsidiary
Everplus Material Co., Ltd. ("EPM")	Second -tier subsidiary
eGalax_eMPIA Technology Inc. ("EETI")	The Company holds directorship
Holy Stone International Trading (Shanghai) Co., Ltd. ("Holy Stone Shanghai)	Third-tier subsidiary
Infortech (CHINA) CO., LTD. ("Infortech ")	Third-tier subsidiary
Milestone Global Technology Ltd. ("MGT")	Third-tier subsidiary
Holy Stone (Europe) Ltd. ("HSE")	Third-tier subsidiary
Rong Jhan Investment Co., Ltd. ("Rong Jhan")	Second -tier subsidiary
Holypag Electronics Corporation ("Holypag")	Fourth -tier subsidiary
All directors and supervisors, president and vice presidents	Main management team of the Company

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5.2 Significant Transactions with Related Parties

Significant transactions with related parties in 2012 and 2011, and the transaction remainders as of December 31, 2012 and 2011 are as follows:

5.2.1 Sales

	2012		2011	
	Amount	% of net sales	Amount	% of net sales
Holy Stone (Hong Kong)	\$ 891,565	7.15	1,241,527	9.44
Holy Stone (Shanghai)	827,398	6.64	1,244,550	9.47
Infortech (China)	328,937	2.64	382,219	2.91
Others	12,898	0.10	13,653	0.10
	\$ 2,060,798	16.53	2,881,949	21.92

As of December 31, 2012 and 2011, the deferred unrealized gross profits, made by downstream transactions with the affiliates, were NT\$19,977 thousand and NT\$17,817 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

	2012		2011	
	Amount	% of net purchases	Amount	% of net purchases
HPC	\$ 244,022	2.39	243,041	2.25
EPM	83,360	0.82	-	-
EETI	48,403	0.47	99,724	0.92
Others	4,315	0.04	1,524	0.01
	\$ 380,100	3.72	344,289	3.18
	\$ 244,022	2.39	243,041	2.25

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\$1,209 thousand and NT\$1,811 thousand as of December 31, 2012 and 2011, respectively. These were recognized as deductions in “Long-term equity investments under equity method” and “Investment income.”

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“Selling and Administrative” account. As of December 31, 2012 and 2011, unpaid commission were NT\$184 thousand and NT\$276 thousand, respectively.

- v. As of December 31, 2012 and 2011, 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\$307 thousand and NT\$229 thousand, respectively.
- vi. In 2012, the Company paid NT\$33,445 thousand to EPM for providing technical consultation services and consultancy fees listed under “Research and Development”. As of December 31, 2012, unpaid amount totaled NT\$16,694 thousand.

5.2.6 Endorsements/Guarantees

- i. On December 2011, the outstanding amount of endorsements/guarantees made by the Company for Martek was NT\$20,000 thousand.
- ii. On December 31, 2012 and 2011, the Company endorsed US\$10,000 for HPC to borrow loans, of which actual amount used were both JPY500,000 thousand.
- iii. On December 31, 2012, the Company endorsed US\$5,000 for HSH to borrow loans.
- iv. On December 31, 2012, the Company endorsed NT\$150,000 for Rong Jhan to borrow loans.

5.2.7 Details on receivables from related parties on December 31, 2012 and 2011 are summarized as follows:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Notes and accounts receivables	\$ 777,100	1,165,812
Other receivables	307	229
	<u>\$ 777,407</u>	<u>1,166,041</u>

5.2.8 Details on payables from related parties on December 31, 2012 and 2011 are summarized as follows:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Notes and accounts payables	\$ 23,774	61,052
Equipment payables	34,566	-
Other payables	19,435	5,626
	<u>\$ 77,775</u>	<u>66,678</u>

5.3 Main Managers' Compensation

Details on compensation paid to directors, supervisors, president, and vice presidents in 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Compensation	\$ 35,973	34,413
Expense of execution	1,320	1,440
Employees' bonus	14,500	17,000

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

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6. Pledged Assets

As of December 31, 2012 and 2011, 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>2012.12.31</u>	<u>2011.12.31</u>
Time deposits (recognized as other financial assets - current)		Import duties	\$ <u>24,469</u>	<u>48,699</u>

7. Commitments and Contingencies

The outstanding letters of credit facilitate the Company's purchase of materials. As of December 31, 2012 and 2011, the Company's outstanding letters of credit amounted to NT\$89,746 thousand and NT\$639,284 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	2012			2011		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel Costs							
	Payroll	225,780	347,683	573,463	193,928	380,247	574,175
	Labor and health insurance	23,183	22,478	45,661	20,702	22,883	43,585
	Pension expense	12,866	11,897	24,763	12,168	16,255	28,423
	Others (Note)	7,048	7,909	14,957	6,256	8,593	14,849
	Depreciation	239,858	16,146	256,004	209,251	15,945	225,196

Note: Includes meals and training expenses.

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

Unit: NT\$ Thousand

	<u>2012.12.31</u>			<u>2011.12.31</u>			
	<u>Foreign Currency</u>	<u>Rate</u>	<u>NT\$</u>	<u>Foreign Currency</u>	<u>Rate</u>	<u>NT\$</u>	
<u>Financial Assets</u>							
<u>Currency-related items</u>							
	USD	\$ 99,860	29.040	2,899,943	109,712	30.275	3,321,543
	EUR	134	38.49	5,171	30	39.18	1,183
	HKD	12,264	3.747	45,953	13,045	3.897	50,855
	JPY	440,611	0.3364	148,221	309,865	0.3906	121,032
<u>Noncurrency-related items</u>							
	USD	316	29.040	9,178	188	30.275	5,691
	HKD	2,871	3.747	10,756	2,636	3.897	10,272
<u>Long-term investments by equity method</u>							
	USD	39,340	29.040	1,142,421	38,661	30.275	1,170,461
<u>Financial Liabilities</u>							
<u>Noncurrency-related items</u>							
	USD	92,568	29.040	2,688,174	75,157	30.275	2,275,368
	JPY	469,557	0.3364	157,959	412,816	0.3906	161,246
	GBP	10	46.83	458	28	46.73	1,313

English Translations of Notes Originally Issued in Chinese

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

11. Additional Disclosures

11.1 Significant Transaction Information

In 2012, 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	Actual Amount Used	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.	First-tier Subsidiary	1,818,620	20,000	-	-	-	-	4,502,141
0	The Company	Holy Stone Polytech Co., Ltd.	Second-tier subsidiary	1,818,620	299,900 (USD10,000,000)	290,400 (USD10,000,000)	168,200 (JPY500,000,000)	-	3.23%	4,502,141
0	The Company	Holy Stone Holding Co., Ltd.	First-tier Subsidiary	1,818,620	149,950 (USD5,000,000)	145,200 (USD5,000,000)	-	-	1.61%	4,502,141
0	The Company	Rong Jhan Investment Co.	First-tier Subsidiary	1,818,620	150,000	150,000	-	-	1.67%	4,502,141

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.

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, 2012				Note
				Shares (unit)	Carrying Value	Percentage of Ownership	Market Value (Net Asset Value)	
The Company	Cathay China Hong Kong and Taiwan Fund	-	Financial assets at fair value through profit or loss - current - open-ended fund	489	3,861	-	3,861	-
The Company	HSBC Chinese Dim Sum High Yield Bond	-	"	2,857	30,069	-	30,069	-
The Company	Yuanta Global REITs Fund	-	"	1,193	10,752	-	10,752	-
The Company	Asia-Pacific Composite High Yield Bond Fund	-	"	880	10,033	-	10,033	-
The Company	F-Asian Plastic Corporate Bond A	-	Financial assets at fair value through profit or loss - current - bond	250	26,530	-	26,530	-
The Company	Gemtek Corporate Bond C	-	"	1,000	100,000	-	100,000	-
The Company	K.S. Terminals Corporate Bond B	-	"	800	82,424	-	82,424	-
The Company	Radium Corporate Bond C	-	"	500	51,510	-	51,510	-
The Company	Cvilux Corporate Bond C	-	"	50	5,152	-	5,152	-
The Company	China Electric Corporate Bond A	-	"	200	20,000	-	20,000	-
The Company	Megaholdings Convertible Bond (288601)	-	"	260	25,714	-	25,714	-
The Company	Convertible Bonds	-	Financial assets at fair value through profit or loss - current - foreign stock	20	9,383	-	9,383	-
The Company	China Everbright Int	-	"	115	1,689	-	1,689	-
The Company	Ju Teng Int	-	"	150	2,057	-	2,057	-
The Company	Nagacorp	-	"	200	3,522	-	3,522	-
The Company	Cosco	-	"	50	2,069	-	2,069	-
The Company	Chu Kong Petro	-	"	100	1,536	-	1,536	-
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of the Company	Long-term equity investment	11,500	199,684	100.00	199,684	-
The Company	Holy Stone Holdings Co., Ltd. Stock	"	"	26,976	941,527	100.00	942,737	-
The Company	UHOLY Investments Co., Ltd. Stock	"	"	22,500	399,753	57.69	398,225	-
The Company	Martek Co., Ltd. Stock	"	"	8,500	124,416	100.00	124,416	-
The Company	Rong Jhan Investments Co., Ltd. Stock	"	"	55,000	591,278	100.00	591,278	-
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets - noncurrent	391	71,105	1.82	71,105	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	Financial assets carried at cost - noncurrent	7,500	300,000	-	300,000	-

English Translations of Notes Originally Issued in Chinese

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

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 Currency Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	52,937	740,000	52,937	740,802	740,000	802	-	-	-
The Company	Mega Diamond Currency Market Fund	"	-	-	-	-	107,398	1,300,000	107,398	1,301,887	1,300,000	1,887	-	-	-
The Company	Taishin 1699 Money Market	"	-	-	-	-	74,220	970,000	74,220	971,378	970,000	1,378	-	-	-
The Company	Taishin Public Money Market	"	-	-	-	-	72,068	990,000	72,068	991,210	990,000	1,210	-	-	-
The Company	Yuanta Cosmos Currency Market	"	-	-	-	-	69,634	1,020,000	69,634	1,021,779	1,020,000	1,779	-	-	-
The Company	Capital Secure Currency Market	"	-	-	-	-	17,892	280,000	17,892	280,219	280,000	219	-	-	-

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 International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	891,565	7.15%	Next month-end 150 days	-	-	445,492	14.70%	-
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	Sales	827,398	6.64%	Next month-end 120 days	-	-	213,683	7.05%	-
The Company	Infotech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	328,937	2.64%	Month-end 120 days	-	-	116,381	3.84%	-
The Company	Holy Stone Polytech Co., Ltd.	Second-tier Subsidiary	Purchases	244,022	2.39%	Month-end 45 days	-	-	(11,433)	1.06%	-

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)	First-tier Subsidiary	213,683	2.46	-	-	68,640	-	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	445,492	1.76	-	-	129,804	-	-
The Company	Infotech (CHINA) Co., Ltd.	Third-tier Subsidiary	116,381	2.61	-	-	-	-	-

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 2012.

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

Related information on investee companies of 2012 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, 2012			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				Dec. 31, 2012	Dec. 31, 2011	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%	199,684	30,114	30,114	Subsidiary of the Company
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	941,527	12,691	13,293	Subsidiary of the Company
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	399,753	(3,485)	(2,009)	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%	124,416	18,248	18,248	Subsidiary of the Company

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of Dec. 31, 2012			Net Income (Losses) of the Investee	Equity in the Earnings (Losses)	Note
				Dec. 31, 2012	Dec. 31, 2011	Shares	%	Carrying Value			
The Company	Rong Jhan Investments Co., Ltd.	Taipei City	Investment activities	340,000	340,000	55,000	100.00%	591,278	15,698	15,698	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 9,261,456	USD 445,147	USD 445,147	Subsidiary of Holy Stone Holdings Co., Ltd.
Holy Stone Holdings	Holypaq Corporation	Cayman	Investment activities	USD 1,200,000	USD 1,200,000	1,200	100.00%	USD 35,666	USD (249,111)	USD (249,111)	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 1,583,971	USD 27,662	USD 27,662	Subsidiary of Holy Stone Holdings 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 16,606,312	USD 985,871	USD 985,871	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 483,802,256	JPY 483,000,000	48	98.78%	USD 3,819,221	JPY (73,351,892)	USD (905,893)	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	JPY 350,000,000	4	100.00%	USD 3,855,911	JPY 382,044	USD 4,775	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 5,714,841	CNY 961,650	USD 152,325	Subsidiary of Holy Stone Investments Co., Ltd.
Holy Stone Investments Co., Ltd.	Infotech (China) Co., Ltd.	Shanghai, China	Electronic components selling	USD 2,100,000	USD 2,100,000	2,100	100.00%	USD 3,512,469	CNY 1,851,643	USD 293,300	Subsidiary of Holy Stone Investments Co., Ltd.
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 17,185	CNY (1,549,563)	USD (245,451)	Subsidiary of Holypaq Corporation
Green Glory Holdings	Infotech International Trading (Shanghai) Ltd.	Shanghai, China	Electronic components developing and selling	USD 1,000,000	USD 1,000,000	1,000	100.00%	USD 891,291	CNY 118,866	USD 18,828	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 436,274	USD 22,518	USD 22,518	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 238,275	GBP (8,116)	USD (12,864)	Subsidiary of Green Glory Holdings
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co., Ltd.	Taipei City	Western medicine wholesaling and medical instruments wholesaling	135,107	94,107	12,247	36.45%	81,884	(43,192)	(9,745)	UHOLY's long-term investee recognized under equity method
Holy Stone Healthcare Co., Ltd.	MDT Int'l SA	Switzerland	Medical instruments trading	CHF 1,581,000	CHF 1,275,000	1,581	62.00%	28,783	CHF 202,943	(8,036)	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%	4,234	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%	401,420	24,086	16,860	Subsidiary of Rong Jhan Investments Co., Ltd.
Rong Jhan Investments Co.	Aveo Multimedia Corporation	Taipei County	Electronic components manufacturing	34,180	34,180	3,418	34.18%	22,730	(17,326)	(5,922)	Subsidiary of Rong Jhan Investments Co., Ltd.
OHGA Electronics Co., Ltd.	Aveo Multimedia Corporation	Taipei County	Electronic components manufacturing	10,000	10,000	1,000	10.00%	6,650	(17,326)	(1,733)	Subsidiary of Rong Jhan Investments Co., Ltd.
Aveo Multimedia Corporation	HAV Co., Ltd.	Samoa	Investment activities	USD 1,650,000	USD 1,500,000	1,650	100.00%	14,854	USD (541,294)	(16,008)	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.	-	17,994 (USD600,000)	-	-	-	Necessary for short-term financing	-	Operation turnover	-	-	-	11,212	44,849
2	Holy Stone Enterprise (H.K) Co., Ltd.	Holy Stone Holding Co.	Other receivables	44,985 (USD1,500,000)	43,560 (USD1,500,000)	43,560 (USD1,500,000)	1.80%	Necessary for short-term financing	-	Operation turnover	-	-	-	9,004,283	9,004,283
3	Holy Stone Holding Co.	Infotech (China) Co., Ltd.	Other receivables	74,975 (USD2,500,000)	72,600 (USD2,500,000)	60,984 (USD2,100,000)	2.20%	Necessary for short-term financing	-	Operation turnover	-	-	-	9,004,283	9,004,283
4	Holy Stone Holding Co.	Holy Stone International Trading (Shanghai) Co., Ltd.	-	90,825 (USD3,000,000)	-	-	-	Necessary for short-term financing	-	Operation turnover	-	-	-	9,004,283	9,004,283

Note: Financing to related parties is limited to 40% 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.

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

11.2.4 Marketable securities held:

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

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				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 9,261,456	100.00	USD 9,261,456	-
Holy Stone Holdings Co., Ltd.	Holypaq Corporation Stocks	Subsidiary of H.S.H	Long-term equity investment	1,200	USD 35,666	100.00	USD 35,666	-
Holy Stone Holdings Co., Ltd.	Green Glory Holdings Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,210	USD 1,583,971	100.00	USD 1,583,971	-
Holy Stone Holdings Co., Ltd.	Mayatek Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	2,500	USD 16,606,312	100.00	USD 16,606,312	-
Holy Stone Holdings Co., Ltd.	Holy Stone Polytech Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	48	USD 3,819,221	98.78	JPY 333,302,866	-
Holy Stone Holdings Co., Ltd.	Everplus Material Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	4	USD 3,855,911	100.00	JPY 332,406,127	-
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 5,714,841	100.00	CNY 35,606,489	-
Holy Stone Investments Co., Ltd.	Infortech (CHINA) CO., LTD. Equity	Subsidiary of H.S.I	Long-term equity investment	2,100	USD 3,512,469	100.00	CNY 21,884,542	-
Holypaq Corporation	Holypaq Electronics Corporation Equity	Subsidiary of Holypaq Corporation	Long-term equity investment	1,000	USD 17,185	100.00	CNY 107,072	-
Green Glory Holdings Ltd.	Infortech International Trading (Shanghai) Ltd. Equity	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	1,000	USD 891,291	100.00	CNY 5,553,215	-
Green Glory Holdings Ltd.	Milestone Global Technology Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	500	USD 436,274	100.00	USD 436,274	-
Green Glory Holdings Ltd.	Holystone (Europe) Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	350	USD 238,275	100.00	GBP 147,758	-
Holy Stone Enterprise (H.K) Co.	Bearer Glencore International AG	-	Financial assets at fair value through profit or loss - current - foreign stock	5	USD 27,937	-	HKD 212,776	-
UHOLY Investments Co. Ltd.	Holy Stone Healthcare Co. Ltd. Stocks	Subsidiary of UHOLY Investments Co. Ltd.	Long-term equity investment	12,247	81,884	36.45	81,884	-
UHOLY Investments Co. Ltd.	EETI Stocks	-	Available-for-sale financial assets - noncurrent	5,809	353,239	12.05	353,239	-
UHOLY Investments Co. Ltd.	INPAQ Technology Co., Ltd. Stocks	-	Available-for-sale financial assets- noncurrent	4,124	70,940	4.15	70,940	-
UHOLY Investments Co. Ltd.	Innovation Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	8,900	89,000	19.78	91,044	-
UHOLY Investments Co. Ltd.	C2 MICROSYSTEMS INC. Preferred stocks	-	Financial assets carried at cost - noncurrent	1,200	-	3.20	-	-
UHOLY Investments Co. Ltd.	Zelltek Technology Corp. Stocks	-	Financial assets carried at cost - noncurrent	859	19,757	3.76	7,535	-
UHOLY Investments Co. Ltd.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent	599	2,994	1.44	3,976	-
UHOLY Investments Co. Ltd.	Innostone Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	5,900	59,000	19.67	56,347	-
Holy Stone Healthcare Co.	MDT INT'L SA Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	1,581	28,783	62.00	CHF 1,458,732	-
Holy Stone Healthcare Co.	Global Search Holdings Ltd. Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	150	4,234	100.00	USD 145,798	-
Rong Jhan Investments Co. Ltd.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent	150	4,500	0.36	994	-
Rong Jhan Investments Co. Ltd.	Grand Fortune Securities Co., Ltd. Stocks	-	Financial assets carried at cost - noncurrent	5,000	45,000	2.50	41,548	-
Rong Jhan Investments Co. Ltd.	Jya-Nay Co., Ltd. Stocks	-	Financial assets carried at cost - noncurrent	2,976	32,741	12.40	28,520	-
Rong Jhan Investments Co. Ltd.	OHGA Electronics Co., Ltd. Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	15,120	401,420	70.00	234,315	-
Rong Jhan Investments Co. Ltd.	Aveo Multimedia Corporation Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	3,418	22,730	34.18	22,730	-
Rong Jhan Investments Co. Ltd.	Well Shin Technology Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	102	4,157	-	4,157	-
Rong Jhan Investments Co. Ltd.	Ili Technology Corporation Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	20	1,830	-	1,830	-
Rong Jhan Investments Co. Ltd.	Coxon Precise Industrial Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	70	4,137	-	4,137	-
Rong Jhan Investments Co. Ltd.	Rechi Precision Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	100	2,520	-	2,520	-
Rong Jhan Investments Co. Ltd.	Jess-Link Products Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	10	261	-	261	-
Rong Jhan Investments Co. Ltd.	Quanta Computers Inc. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	20	1,366	-	1,366	-
Rong Jhan Investments Co. Ltd.	Daxin Materials Corporation Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	47	2,411	-	2,411	-
Rong Jhan Investments Co. Ltd.	W.I.S.E. Yuanta/Polaris CSI 300 Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	200	2,942	-	2,942	-
Rong Jhan Investments Co. Ltd.	Shinkong Synthetic Fibers Corporation Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	200	1,942	-	1,942	-
Rong Jhan Investments Co. Ltd.	UDE Corporation Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	20	1,298	-	1,298	-

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				Note
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	
OHGA Electronics Co.	Holy Stone Healthcare Co. Ltd. Stocks	Subsidiary of Rong Jhan Investments Co. Ltd.	Long-term equity investment	1,000	6,650	10.00	6,650	-
OHGA Electronics Co.	ASW Cvilux C	-	Financial assets at fair value through profit or loss - current - bonds	100	10,303	-	10,303	-
OHGA Electronics Co.	ASW Wah Hong A	-	Financial assets at fair value through profit or loss - current - bonds	90	9,411	-	9,411	-
OHGA Electronics Co.	ASW K.S. Terminals B	-	Financial assets at fair value through profit or loss - current - bonds	100	10,303	-	10,303	-
Aveo Multimedia Corporation	HAV Co., Ltd. Stocks	Subsidiary of Aveo Multimedia Corporation	Long-term equity investment	1,650	14,854	100.00	USD 511,500	-

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:

Holding Company	Marketable Securities Type and Name	Financial Statement Account	Trade Target	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
Rong Jhan Investments Co. Ltd.	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss -current	-	-	9,917	120,000	9,917	120,215	120,000	215	9,917	120,000	-	-	-
Martek Co., Ltd.	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss -current	-	-	13,566	164,000	13,566	164,235	164,000	235	13,566	164,000	-	-	-
Holy Stone Healthcare Co., Ltd.	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss -current	-	-	33,511	406,000	33,511	406,417	406,000	417	33,511	406,000	-	-	-

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	Purchases	827,398	96.57%	Next month-end 120 days	-	-	(213,683)	98.22%	-
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Third-tier Subsidiary	Purchases	891,565	94.64%	Next month-end 150 days	-	-	(445,492)	100%	-
Infotech (CHINA) CO., LTD.	The Company	Third-tier Subsidiary	Purchases	328,937	98.51%	Month-end 120 days	-	-	(116,381)	89.49%	-
Holy Stone Polytech Co., Ltd.	The Company	Second-tier Subsidiary	Sales	244,022	38.72%	Month-end 45 days	-	-	11,433	9.58%	-

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 2012

No.	Company Name	Derivative	Nominal Principal (thousand)	Term	Fair Value
1	Martek Co.	Forward Foreign Exchange Contract	USD 300	2012.12.19 ~ 2013.01.14	4
1	Martek Co.	Forward Foreign Exchange Contract	USD 200	2012.12.19 ~ 2013.01.22	3
1	Martek Co.	Forward Foreign Exchange Contract	USD 200	2012.12.19 ~ 2013.02.20	3
1	Martek Co.	Forward Foreign Exchange Contract	USD 100	2012.12.26 ~ 2013.01.08	1
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	2012.12.24 ~ 2013.01.09	12
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	2012.12.24 ~ 2013.02.08	10

Investee companies recognized financial assets at fair value through profit or loss – current of \$511 thousand loss in 2012.

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 Jan. 1, 2012	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2012	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, 2012
					Remitted	Collected					
Holy Stone International Trading (Shanghai) Co., Ltd.	Capacitors selling	USD 4,010,000	Setting 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 152,325	USD 5,714,841	-
Holypaq (Dongguan) Corporation	Capacitors manufacturing and selling	USD 21,000,000		USD 21,000,000	-	-	USD 2,100,000	100 %	USD 293,300	USD 3,512,469	-
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 (245,451)	USD 17,185	-
Infortech (CHINA) Co., Ltd.	Electronic components selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100 %	USD 18,828	USD 891,291	-

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

Note 2: Financial statement account audited by accountants of parent company

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) 233,898	(USD 8,110,000) 235,514	5,402,569

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.

Holy Stone Enterprise Co., Ltd.
List of Cash and Cash Equivalents
As of December 31, 2012

Unit: NT\$ thousand

Items	Items	Amount
Inventory cash and working capital		\$ 827
Current Deposits		1,197,228
Foreign Currency Deposits (Note)	USD: 7,192 thousand	208,861
	EUR: 131 thousand	5,045
	JPY: 372,628 thousand	125,352
	HKD: 7,479 thousand	28,022
Check Deposits		2,540
Fixed Deposits	Current Portion; interest interval : 0.52% ~ 1.345%	372,264
		\$ 1,940,139

Note: Foreign currency rates are translated from December 31, 2012 spot rates.

USD: NTD = 1:29.04

EUR: NTD = 1:38.49

JPY: NTD = 1:0.3364

HKD: NTD = 1:3.747

Holy Stone Enterprise Co., Ltd.
List of Financial Assets at Fair Value through Profit or Loss - Current
As of December 31, 2012

Unit: NT\$ thousand/ Thousands of Units

<u>Securities</u>	<u>Unit</u>	<u>Acquisition</u> <u>Cost</u>	<u>Market Price</u>	
			<u>Unit Price</u> <u>(NT\$)</u>	<u>Total</u>
Foreign Stocks:				
Convertible Bonds	20	\$ 9,199	469.15	9,383
China Everbright Int	115	1,947	14.69	1,689
Ju Teng Int	150	2,162	13.71	2,057
Nagacorp	200	4,152	17.61	3,522
Cosco	50	2,492	41.37	2,069
Chu Kong Petro	100	1,655	15.36	1,536
Subtotal				<u>20,256</u>
Investment Bonds :				
F-Asian Plastic Corporate Bond A	250	26,530	106.12	26,530
Gemtek Corporate Bond C	1,000	100,000	100	100,000
K.S. Terminals Corporate Bond B	800	82,424	103.03	82,424
Radium Corporate Bond C	500	51,510	103.02	51,510
Cvilux Corporate Bond C	50	5,152	103.04	5,152
China Electric Corporate Bond A	200	20,000	100	20,000
Megaholdings Convertible Bond (288601)	260	26,202	98.9	25,714
Subtotal				<u>311,330</u>
Open-end Funds:				
Cathay China Hong Kong and Taiwan Fund	489	5,000	7.9	3,861
HSBC Chinese Dim Sum High Yield Bond	2,857	3,000	10.524	30,069
Yuanta Global REITs Fund (A)	1,193	10,000	9.01	10,752
Asia-Pacific Composite High Yield Bond	880	10,000	11.40	10,033
Fund				
Subtotal				<u>54,715</u>
Currency Swap Contracts	-	-	-	195
Total				<u><u>\$ 386,496</u></u>

Holy Stone Enterprise Co., Ltd.
List of Notes and Accounts Receivable
As of December 31, 2012

Unit: NT\$ thousand

Customers	Amount
Notes Receivable:	
Others (lower than 5%)	\$ 82,420
Less: Allowance for doubtful accounts	(9,532)
Total	72,888
Accounts Receivable:	
Customer C	319,208
Customer L	112,042
Others (lower than 5%)	1,793,020
Subtotal	2,224,270
Less: Allowance for doubtful accounts	(43,218)
Subtotal	2,181,052
Total	\$ 2,253,940

Holy Stone Enterprise Co., Ltd.
List of Other Financial Assets – Current
As of December 31, 2012

Unit: NT\$ thousand

Items	Amount
Tax refund receivable	\$ 38,880
Restricted bank deposits	24,469
Others	113,656
Total	\$ 177,005

List of Inventory

Items	Amount		Remarks
	Cost	Market Price	
Supplies	\$ 110,914	-	Note
Raw material	4,532	-	“
Work in progress	123,271	-	“
Semi-finished goods	81,256	-	“
Finished goods	285,483	328,308	Net realizable value
Merchandise	1,184,699	1,536,596	“
Subtotal	1,790,155		
Less: Allowances for losses	(126,815)		
	\$ 1,663,340		

Note: Supplies, raw materials, work in progress, and semi-finished goods are provided for the purpose of manufacturing finished goods. Since the net realizable value of finished goods is higher than cost, likewise, the net realizable values for supplies, raw materials, work in progress and semi-finished goods are also higher than cost.

Holy Stone Enterprise Co., Ltd.
List of Prepaid Expenses and Other Current Assets
As of December 31, 2012

Unit: NT\$ thousand

<u>Items</u>	<u>Amount</u>
Prepaid expenses:	
Prepayments to suppliers	\$ 24,203
Prepaid insurance expense	3,244
Other	<u>1,605</u>
Subtotal	<u>29,052</u>
Other current assets:	
Deferred income tax assets	27,732
Other	<u>5,698</u>
Subtotal	<u>33,430</u>
Total	<u><u>\$ 62,482</u></u>

Holy Stone Enterprise Co., Ltd.
List of Changes in Funds and Investments
From January 1, 2012 to December 31, 2012

Unit: NT\$ thousand

Investees	Beginning Balance		Current Period Increases		Current Period Decreases		Investment gain (loss) under equity method	Others (Note)	Ending Balance			Market Value or Net Equity		Basis of Evaluation	Provided as Collateral
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	%	Amount	Net Value per share (NT\$)	Total		
Long-term investments under equity method:															
Holy Stone Enterprise (H.K.) Co., Ltd.	11,500,000	\$ 177,347	-	-	-	-	30,114	(7,777)	11,500,000	100.00%	199,684	17.36	199,684	By equity	None
Holy Stone Holdings Co., Ltd.	26,976,000	991,303	-	-	-	-	13,293	(63,069)	26,976,000	100.00%	941,527	34.95	942,737	By equity	None
Uholy Investment Co., Ltd.	22,500,000	422,039	-	-	-	(29,250)	(2,009)	8,973	22,500,000	57.69%	399,753	17.71	398,376	By equity	None
Martek Co., Ltd.	8,500,000	146,168	-	-	-	(40,000)	18,248	-	8,500,000	100.00%	124,416	14.64	124,416	By equity	None
Rong Jhan Investment Co., Ltd.	45,000,000	575,969	10,000,000	-	-	-	15,698	(389)	55,000,000	100.00%	591,278	10.75	591,278	By equity	None
		<u>2,312,826</u>		<u>-</u>		<u>(69,250)</u>	<u>75,344</u>	<u>(62,262)</u>			<u>2,256,658</u>				
Financial assets available-for-sale - noncurrent:															
GSI Technology Inc. (GSIT)	581,742	12,557	-	-	191,228	(4,129)	-	-	390,514	-	8,428	182.08	71,105	By market value	None
eGalax_eMPIA Technology Inc.	259,855	9,799	5,197	-	265,052	(9,799)	-	-	-	-	-	-	-	By market value	None
Evaluation of available-for-sale financial assets		<u>75,453</u>		<u>-</u>		<u>-</u>		<u>(12,776)</u>			<u>62,677</u>				
		<u>97,809</u>		<u>-</u>		<u>(13,928)</u>		<u>(12,776)</u>			<u>71,105</u>				
Financial assets carried at cost - noncurrent:															
Preferred stock - China Trust Commercial Bank	7,500,000	300,000	-	-	-	-	-	-	7,500,000	-	300,000	-	-	By cost	None
		<u>\$ 2,710,635</u>		<u>-</u>		<u>83,178</u>	<u>75,344</u>	<u>(75,038)</u>			<u>2,627,763</u>				

Note: Net value changes and foreign currency translation adjustments of investees.

Holy Stone Enterprise Co., Ltd.

List of Changes in Fixed Assets

From January 1, 2012 to December 31, 2012

Unit: NT\$ thousand

<u>Item</u>	<u>Beginning Balance</u>	<u>Current Period Increases</u>		<u>Current Period Decreases</u>		<u>Ending Balance</u>	<u>Provided as Collateral</u>
		<u>Addition</u>	<u>Reclassification</u>	<u>Disposal</u>	<u>Reclassification</u>		
Land	\$ 597,530	-	-	-	-	597,530	None
Buildings	1,139,806	1,588	46,189	-	-	1,187,583	None
Machinery and Equipment	1,611,809	20,908	266,682	(61,501)	-	1,837,898	None
Leasing Assets	47,568	-	-	-	-	47,568	None
Other Equipment	216,941	5,984	19,223	(6,121)	-	236,027	None
Construction in progress and Prepayments for Equipment	226,017	259,256	(332,094)	-	-	153,179	None
Total	\$ 3,839,671	287,736	-	(67,622)	-	4,059,785	

List of Changes in

Accumulated Depreciation in Fixed Assets

<u>Items</u>	<u>Beginning Balance</u>	<u>Current Period Increases</u>		<u>Current Period Decreases</u>		<u>Ending Balance</u>
		<u>Addition</u>	<u>Reclassification</u>	<u>Disposal</u>	<u>Reclassification</u>	
Buildings	\$ 190,201	44,772	-	-	-	234,973
Machinery and Equipment	801,301	176,511	-	(29,295)	-	948,517
Leasing Assets	4,871	5,239	-	-	-	10,110
Other Equipment	139,396	29,482	-	(3,602)	-	165,276
Total	\$ 1,135,769	256,004	-	(32,897)	-	1,358,876

Holy Stone Enterprise Co., Ltd.

List of Short-term Loans

As of December 31, 2012

Unit: NT\$ thousand

<u>Types</u>	<u>Bank</u>	<u>Ending Balance</u>	<u>Contract Period</u>	<u>Interest rate range</u>	<u>Financing Credit</u>	<u>Collaterals</u>
Unsecured	Huanan, Hsin Wei Branch	\$ 648,474	Within 1 year	0.948%~1.297%	800,000	None
“	Land Bank, Xihu Branch	611,719	“	0.82%~0.87%	800,000	None
“	Bank of Taiwan, Xinyi Branch	241,797	“	0.75%~0.8483%	360,000	None
“	Taipei Fubon Commercial Bank, Anhe Branch	<u>221,953</u>	“	0.95%	500,000	None
Total		<u>\$ 1,723,943</u>				

Holy Stone Enterprise Co., Ltd.
List of Notes and Accounts Receivables
As of December 31, 2012

Unit: NT\$ thousand

Customer	Amount
Accounts receivable:	
Customer (a)	\$ 354,019
Customer (h)	162,788
Customer (d)	60,816
Others (lower than 5%)	425,461
Total	\$ 1,003,084

List of Expense Payables and Other
Current Liabilities

Items	Amount
Expense payables:	
Salary payable	\$ 35,087
Awards payable	16,536
Employee bonuses payable	91,881
Director and supervisor compensation payable	17,228
Other payables	114,133
Subtotal	274,865
Other current liabilities:	
Deferred credits – Interest between affiliated companies	19,977
Equipment payables	36,458
Others	22,299
Subtotal	78,734
Total	\$ 353,599

Holy Stone Enterprise Co., Ltd.

List of Long-term Loans

As of December 31, 2012

Unit: NT\$ thousand

<u>Creditor</u>	<u>Ending Balance</u>	<u>Loan Period</u>	<u>Interest rate range</u>	<u>Collateral</u>
Yuanta, Neihu	\$ 73,167	97.06~102.06	1.3097%~1.3436%	None
Huanan, Hsin Wei	100,000	101.06~106.06	1.457%	None
Taipei Fubon	<u>50,000</u>	101.06~103.06	1.38%	None
Subtotal	223,167			
Less: Current portion	<u>(73,167)</u>			
	<u>\$ 150,000</u>			

List of Sales Revenue

From January 1, 2012 to December 31, 2012

<u>Items</u>	<u>Quantity (Thousand pcs)</u>	<u>Amount</u>
Passive Components	9,499,730	\$ 3,593,907
Active Components	739,396	3,614,398
System and Modules	114,169	1,827,849
Others	469,287	<u>3,418,804</u>
Net Revenue		<u>\$ 12,454,958</u>

Note: The above amounts are net amounts after sales returns and discounts of NT\$123,765 thousand.

Holy Stone Enterprise Co., Ltd.

List of Operating Expense

From January 1, 2012 to December 31, 2012

Unit: NT\$ thousand

Items	Amount
Merchandise	
Beginning balance of inventory	\$ 1,241,638
Add: Net purchases for current period	9,157,213
Processing expenses	21,128
Less: Ending balance of inventory	(1,184,699)
Marketing and management expenses transferred	(3,981)
Research and development expenses transferred	(199)
Loss on scraps	(10,934)
Cost of goods sold - Merchandise	9,220,166
Supplies	
Beginning balance of supplies	124,461
Add: Net purchases for current period	680,729
Less: Ending balance of supplies	(110,914)
Supplies sold	(20)
Marketing and management expenses transferred	(4,058)
Research and development expenses transferred	(7,591)
Loss on scraps	(2,439)
Supplies consumed in current period	680,168
Raw Material	
Beginning Raw Material	4,896
Add: Net purchases for current period	76,464
Profit on inventory	2
Less: Ending balance of raw materials	(4,532)
Raw material sold	(6)
Marketing and management expenses transferred	(78)
Research and development expenses transferred	(826)
Loss on scraps	(60)
Indirect Materials	75,860
Direct Labor	192,111
Manufacturing Expenses	611,166
Manufacturing Costs	1,559,305
Add: Beginning balance of work in progress and semi-finished goods	184,861
Net Purchases for current period	250
Less: Ending balance of work in progress and semi-finished goods	(204,527)
Marketing and management expenses transferred	(2,043)
Research and development expenses transferred	(2,440)
Cost of Finished Goods	1,535,406
Add: Beginning balance of finished goods	276,079
Purchases for current period	301,964
Less: Ending balance of finished goods	(285,483)
Marketing and management expenses transferred	(909)
Research and development expenses transferred	(59)
Loss on scraps	(54)
Cost of goods sold – Finished Goods	1,826,944
Add: Cost of goods sold – Supplies	26
Expenses and losses related to inventory	10,063
Operating Costs	\$ 11,057,199

Holy Stone Enterprise Co., Ltd.
List of Marketing and Management Expenses
From January 1, 2012 to December 31, 2012

Unit: NT\$ thousand

<u>Items</u>	<u>Amount</u>
Salary Expenses	\$ 291,748
Freight Expenses	81,298
Entertainment Expenses	30,888
Commission	53,463
Other Expenses	146,721
Total	<u>\$ 604,118</u>

List of Research and Development Expenses

<u>Items</u>	<u>Amount</u>
Salary Expenses	\$ 55,935
Materials consumed	15,635
Other Expenses	52,647
Total	<u>\$ 124,217</u>

Representation Letter

The entities that are required to be included in the combined financial statements of Holy Stone Enterprise Company Limited as of and for the year ended December 31, 2012, 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 20, 2013

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, 2012 and 2011, 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\$2,583,852 thousand and NT\$2,344,535 thousand as of December 31, 2012 and 2011, respectively, a 18.61 percent and 16.20 percent of total consolidated assets; consolidated revenues of 2012 and 2011 totaled NT\$1,891,557 thousand and NT\$1,588,533 thousand, respectively, a 12.95 percent and 10.16 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, 2012 and 2011, 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.

KPMG

Accountants:

Mr. Ching-Sung Wang

Mr. Chia-Hsin Chang

Taipei, Taiwan
Republic of China

March 20, 2013

English Translations of Consolidated Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011

(Expressed in Thousands of New Taiwan Dollars)

Assets	2012.12.31		2011.12.31		Liabilities and Stockholders' Equity	2012.12.31		2011.12.31	
	Amount	%	Amount	%		Amount	%	Amount	%
Current Assets:					Current Liabilities:				
Cash and Cash Equivalents (Note 4.1)	\$ 3,025,810	23	2,941,203	20	Short-term Loans (Note 4.10 and 6)	\$ 2,116,071	15	1,696,007	12
Financial Assets at Fair Value through Profit or Loss-Current (Note 4.2, 4.12)	440,221	3	336,353	2	Financial Liabilities at Fair Value through Profit or Loss-Current (Note 4.2 and 4.12)	1,417	-	4,033	-
Notes and Accounts Receivable, net (Note 4.3)	3,157,032	23	3,743,446	26	Notes and Accounts Payable	1,190,931	9	1,533,100	11
Other Financial Assets-Current (Note 6)	187,284	1	216,974	1	Payables to Related Parties (Note 5)	6,200	-	23,026	-
Inventories, net (Note 4.4)	2,055,921	15	2,251,483	16	Income Tax Payable	23,016	-	24,159	-
Prepaid Expenses and Other Current Assets (Note 4.14)	128,421	1	84,674	1	Accrued Expenses and Other Current Liabilities	445,770	3	519,766	4
Noncurrent Assets held for sale (Note 4.6)	-	-	30,000	-	Current Portion of Bonds Payable (Note 4.12)	101,300	1	567,863	4
Total Current Assets	8,994,689	66	9,604,133	66	Current Portion of Long-term Debt (Note 4.11 and 6)	80,805	1	152,450	1
Funds and Investments:					Total Current Liabilities	3,965,510	29	4,520,404	32
Long-term Equity Investments under Equity Method	-	-	-	-	Long-term Liabilities				
Available-for-sale Financial Assets-Noncurrent (Note 4.2)	495,284	4	509,456	4	Long-term Debt (Note 4.11 and 6)	238,596	2	217,050	2
Financial Assets carried at cost-Noncurrent (Note 4.2)	552,992	4	550,060	4	Total Long-term Liabilities	238,596	2	217,050	2
Total Funds and Investments	1,048,276	8	1,059,516	8	Other Liabilities:				
Property, Plant and Equipment: (Note 4.7 and 6)					Accrued Pension Liabilities (Note 4.13)	42,062	-	7,810	-
Land	759,669	5	760,564	5	Other Liabilities (Note 4.5)	1,429	-	17,292	-
Buildings	1,456,508	10	1,417,115	10	Deferred Tax Liabilities-Noncurrent (Note 4.14)	39,039	-	43,915	-
Machinery and Equipment	1,958,707	14	1,716,759	12	Total Other Liabilities	82,530	-	69,017	-
Leasing Assets	47,568	-	47,568	-	Total Liabilities	4,286,636	31	4,806,471	34
Other Equipment	318,955	2	290,044	2	Stockholders' Equity (Note 4.12 and 4.15):				
Subtotal	4,541,407	31	4,232,050	29	Common Stock	3,202,175	23	3,202,175	22
Less: Accumulated Depreciation	(1,505,821)	(11)	(1,277,741)	(9)	Capital Surplus	3,622,923	26	3,626,354	25
Construction in progress and Prepayments for Equipments	209,993	2	233,178	2	Retained Earnings:				
Net Property, Plant and Equipment	3,245,579	22	3,187,487	22	Legal Reserve	936,212	7	860,061	6
Intangible Assets (Note 4.8)	575,084	4	598,577	4	Unappropriated Earnings	1,141,021	8	1,200,758	8
Other Assets (Note 4.9)	18,513	-	18,971	-		2,077,233	15	2,060,819	14
					Others:				
					Cumulative Translation Adjustments	(27,010)	-	32,119	-
					Net Loss Unrecognized as Pension Cost	(37,126)	-	-	-
					Unrealized Gain or Loss on Financial Instruments	196,930	1	202,477	1
					Treasury Stock	(30,842)	-	(30,842)	-
						101,952	1	203,754	1
					Equity Attributable to Stockholders of the Parent Company	9,004,283	65	9,093,102	62
					Minority Interest	591,222	4	569,111	4
					Total Stockholders' Equity	9,595,505	69	9,662,213	66
					Commitments and Contingencies (Note 7)				
Total Assets	\$ 13,882,141	100	14,468,684	100	Total Liabilities and Shareholders' Equity	\$ 13,882,141	100	14,468,684	100

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

Chairman: Jing-Rong Tang

President: Jing-Rong Tang

Accountant Manager: Shu-Ying Chang

English Translations of Consolidated Financial Statements Originally Issued in Chinese

HOLY STONE ENTERPRISE COMPANY LIMITED AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2012 and 2011

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

	2012		2011	
	Amount	%	Amount	%
Gross sales	\$ 14,737,675	101	15,759,350	101
Less: Sales Returns and Allowances	<u>(129,841)</u>	<u>(1)</u>	<u>(122,270)</u>	<u>(1)</u>
Net sales	14,607,834	100	15,637,080	100
Cost of Goods Sold (Note 4.4 and 5)	<u>(12,739,110)</u>	<u>(87)</u>	<u>(13,697,226)</u>	<u>(88)</u>
Gross Profit	<u>1,868,724</u>	<u>13</u>	<u>1,939,854</u>	<u>12</u>
Operating Expenses:				
Selling and Administrative	(1,083,933)	(7)	(1,085,716)	(7)
Research and Development	<u>(136,013)</u>	<u>(1)</u>	<u>(127,880)</u>	<u>(1)</u>
	<u>(1,219,946)</u>	<u>(8)</u>	<u>(1,213,596)</u>	<u>(8)</u>
Operating Income	<u>648,778</u>	<u>5</u>	<u>726,258</u>	<u>4</u>
Non-Operating Income and Gains:				
Interest Income	36,789	-	21,711	-
Investment Gain Accounted for using Equity Method (Note 4.5)	16,860	-	-	-
Dividend Income	39,011	-	37,575	-
Gain on Disposal of Investments	31,856	-	152,622	1
Gain on Foreign Exchange	-	-	25,965	-
Gain on Valuation of Financial Assets (Note 4.2)	55,744	-	-	-
Others	<u>66,894</u>	<u>-</u>	<u>21,954</u>	<u>-</u>
	<u>247,154</u>	<u>-</u>	<u>259,827</u>	<u>1</u>
Non-Operating Expenses and Losses:				
Interest Expenses (Note 4.12)	(24,604)	-	(25,725)	-
Investment Loss accounted for using Equity Method (Note 4.5)	-	-	(5,233)	-
Loss on Disposal of Property, Plant and Equipment	-	-	(2,394)	-
Loss on Foreign Exchange	(32,815)	-	-	-
Loss on Impairment (Note 4.2 and 4.6)	(29,809)	-	(8,928)	-
Loss on Valuation of Financial Assets (Note 4.2 and 4.12)	-	-	(13,932)	-
Loss on Valuation of Financial Liabilities (Note 4.2 and 4.12)	(19,646)	-	(71,063)	-
Others	<u>(13,673)</u>	<u>-</u>	<u>(15,945)</u>	<u>-</u>
	<u>(120,547)</u>	<u>-</u>	<u>(143,220)</u>	<u>-</u>
Consolidated Income before Income Tax	775,385	5	842,865	5
Income Tax Expense (Note 4.14)	<u>(139,457)</u>	<u>(1)</u>	<u>(75,130)</u>	<u>-</u>
Consolidated Net Income	<u>\$ 635,928</u>	<u>4</u>	<u>767,735</u>	<u>5</u>
Attributable to:				
Stockholders of the Parent Company	\$ 655,123	4	761,510	5
Minority Interest Income (Loss)	<u>(19,195)</u>	<u>-</u>	<u>6,225</u>	<u>-</u>
	<u>\$ 635,928</u>	<u>4</u>	<u>767,735</u>	<u>5</u>
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Earnings per Share (Note 4.16) (in NTD)				
Basic Earnings per Share	<u>\$ 2.42</u>	<u>2.05</u>	<u>2.49</u>	<u>2.38</u>
Diluted Earnings per Share	<u>\$ 2.33</u>	<u>1.98</u>	<u>2.35</u>	<u>2.25</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, 2012 and 2011

(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
Balance, January 1, 2011	\$ 3,202,175	3,652,343	776,837	1,258,972	(24,681)	(20,223)	528,873	-	639,533	10,013,829
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 (Remark 1):										
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	-	-	-	-	-	-	(326,396)	-	-	(326,396)
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	-	(19,417)	-	-	-	-	-	-	(76,647)	(96,064)
Balance, December 31, 2011	<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>
Derecognized Convertible Bonds	-	(5,180)	-	-	-	-	-	-	-	(5,180)
Consolidated Income for the Twelve Months ended December 31, 2012	-	-	-	655,123	-	-	-	-	(19,195)	635,928
Appropriations of Prior Year's Earnings (Remark 2):										
Legal Capital Reserve	-	-	76,151	(76,151)	-	-	-	-	-	-
Common Stock Cash Dividends	-	-	-	(638,709)	-	-	-	-	-	(638,709)
Change in Gains and Losses of Available-for-sale Financial Assets	-	-	-	-	-	-	(5,547)	-	-	(5,547)
Change in Net Loss not recognized as Pension Cost	-	-	-	-	-	(37,126)	-	-	-	(37,126)
Change in Exchange Differences in Foreign Currency Financial Statements Translation	-	-	-	-	(59,129)	-	-	-	-	(59,129)
Changes in Minority Interest	-	1,749	-	-	-	-	-	-	41,306	43,055
Balance, December 31, 2012	<u>\$ 3,202,175</u>	<u>3,622,923</u>	<u>936,212</u>	<u>1,141,021</u>	<u>(27,010)</u>	<u>(37,126)</u>	<u>196,930</u>	<u>(30,842)</u>	<u>591,222</u>	<u>9,595,505</u>

Remark 1: Compensation to directors and supervisors NT\$21,931 thousand and employee bonus NT\$116,964 thousand were deducted from income statement.

Remark 2: Compensation to directors and supervisors NT\$19,818 thousand and employee bonus NT\$105,693 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 Statement of Cash Flows

For the years ended December 31, 2012 and 2011

(Expressed in Thousands of New Taiwan Dollars)

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating activities:		
Consolidated Net Income	\$ 635,928	767,735
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation	302,308	272,244
Amortization	14,091	6,393
Allowance (Reversal) for Doubtful Accounts	(5,662)	1,608
Amortization - Discount on Corporate Bonds Payable	4,183	7,948
Inventory Valuation Loss, Retirement Loss, and Obsolescence Loss	7,674	17,080
Investment Loss accounted for using Equity Method	(16,860)	5,233
Loss (Gain) on Disposal of Property, Plant and Equipment	(1,417)	87
Impairment Loss on Financial Assets	29,809	-
Impairment Loss on Non-Financial Assets	-	8,928
Loss (Gain) on Expiration of Bonds	8,455	(2,858)
Deferred Income Tax Expense (Income)	(751)	19,994
Changes in Operating Assets and Liabilities:		
Financial Assets at Fair Value through Profit or Loss	(103,868)	145,484
Notes and Accounts Receivable	592,076	(22,299)
Inventories	187,888	296,805
Prepaid Expenses and Other Current Assets	(35,763)	33,601
Other Financial Assets - Current	29,691	(51,258)
Financial Liabilities at Fair Value through Profit or Loss	1,627	4,033
Notes and Accounts Payable	(342,169)	(74,783)
Payables to Related Parties	(16,826)	9,282
Income Tax Payable	(1,143)	(50,668)
Accrued Expenses and Other Current Liabilities	(58,749)	(21,306)
Accrued Pension Liabilities	(2,874)	1,302
Net Cash Provided from Operating Activities	<u>1,227,648</u>	<u>1,374,585</u>
Cash Flows from Investing Activities:		
Decrease in Available-for-sale Financial Assets	13,928	205,853
Acquisition of Financial Assets carried at Cost	(32,741)	-
Proceeds from Sale of Noncurrent Assets Held for Sale	30,000	-
Additions to Property, Plant and Equipment	(427,325)	(404,117)
Proceeds from sale of Property, Plant and Equipment	37,089	9,857
Acquisition of Intangible Assets	(508)	(17,061)
Increase in Other Assets	(6,219)	(51,229)
Net Cash used in Investing Activities	<u>(385,776)</u>	<u>(256,697)</u>
Cash Flows from Financing Activities:		
Increase in Short-term Loans	420,064	441,903
Redemption of Bonds Payable	(488,623)	(105,663)
Borrowing of Long-term Loans	150,000	-
Repayment of Long-term Loans	(200,099)	(146,333)
Increase (Decrease) in Other Liabilities	997	(31)
Cash Dividends	(638,709)	(736,500)
Buyback of Treasury Stock	-	(30,842)
Change in Minority Interest	47,502	32,749
Net Cash used in Financing Activities	<u>(708,868)</u>	<u>(544,717)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	<u>(48,397)</u>	<u>70,980</u>
Effect of Consolidated Entity Changes in Cash and Cash Equivalents	<u>-</u>	<u>1,147</u>
Net Increase in Cash and Cash in Banks	84,607	645,298
Cash and Cash in Banks at Beginning of the Period	2,941,203	2,295,905
Cash and Cash in Banks at End of the Period	<u>\$ 3,025,810</u>	<u>2,941,203</u>
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	<u>\$ 20,132</u>	<u>17,777</u>
Income Tax Paid	<u>\$ 85,031</u>	<u>146,144</u>
Supplemental Information on Non-cash Investing and Financing Activities:		
Current Portion of Long-term Debt	<u>\$ 80,805</u>	<u>720,313</u>
Unrealized Valuation Loss on Financial Instruments - Available for sale	<u>\$ 5,547</u>	<u>326,396</u>
Cash Used in Acquisition of Property, Plant and Equipment		
Acquisition in Property, Plant and Equipment	\$ (412,078)	(403,613)
Increase (Decrease) in Payables on Equipment	(15,247)	(504)
Payment in Cash	<u>\$ (427,325)</u>	<u>(404,117)</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

Holy Stone Enterprise Company Limited
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(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 Multilayer Ceramic Chip Capacitors (MLCC), tantalum (niobium) capacitors, integrated circuits, modules, and other electronic components.

As of December 31, 2012 and 2011, the consolidated financial statements included the accounts of the Company and its subsidiaries (hereinafter jointly referred to as the Company or 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 MLCC, 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	
		2012	2011
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	70.00	70.00
Aveo Multimedia Corporation (Aveo, Taiwan)	OHGA	10.00	10.00
Aveo Multimedia Corporation (Aveo, Taiwan)	Rong Jhan	34.18	34.18
HAV Co., Ltd. (HAV, Samoa)	Aveo	100.00	100.00
Mayatek Co., Ltd. (Mayatek · Belize)	HSH	100.00	100.00
Holystone Polytech Co., Ltd. (HPC, Japan)	HSH	98.78	98.57
Everplus Material Co., Ltd. (EPM, Japan)	HSH	100.00	100.00
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
Holypag Electronics Corporation (Holypag, China)	HPC	100.00	100.00
Zierra (Wuhan) Electronic Tech Co., Ltd. (Zierra" China)	Infortech	-	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	
		2012	2011
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	100.00	100.00

1.3 Wholesale of drugs and medical equipments

	Investor	Percentage of the direct and indirect ownership by the Company at December 31	
		2012	2011
1. Holy Stone Healthcare Co., Ltd. (“Holy Stone Healthcare”, Taiwan)	UHOLY	36.45	38.00
2. MDT INT’L SA (MDT, Switzerland)	Holy Stone Healthcare	62.00	50.00

In 2012 and 2011, 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.”

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

As of December 2012 and 2011, the Consolidated Companies had 1,331 and 1,306 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

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).

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

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.

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.

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

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 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 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

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Holy Stone Enterprise Company Limited
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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. 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 are as follows:

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

Proceeds from disposal of property, plant and equipments are recognized as non-operating gains and losses.

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.

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 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

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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' Compensation

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 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,

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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 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:

	2012.12.31	2011.12.31
Cash on hand	\$ 2,836	2,961
Current deposit	2,058,173	2,194,300
Checking account	38,358	12,192
Deposit account	926,443	731,750
	<u>\$ 3,025,810</u>	<u>2,941,203</u>

4.2 Financial Instrument

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

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	<u>2012.12.31</u>	<u>2011.12.31</u>
Domestic and Foreign stocks	\$ 43,931	70,408
Bonds	341,347	255,316
Open-ended funds	54,715	10,629
Foreign exchange swap contracts	195	-
Foreign currency forward contracts	33	-
Total	<u>\$ 440,221</u>	<u>336,353</u>

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

	<u>2012.12.31</u>	<u>2011.12.31</u>
Foreign currency forward contracts	\$ -	53
Foreign exchange swap contracts	-	107
Right to call or put - Convertible bonds payable	1,417	3,873
	<u>\$ 1,417</u>	<u>4,033</u>

Gain (loss) on financial assets and liabilities recognized at fair value through profit or loss – current as of December 31, 2012 and 2011 was NT\$37,886 thousand and (NT\$53,780) thousand.

Derivatives are hedging instruments to avoid exchange risks and interest risks from operating, financing, and investing activities. As of December 31, 2012 and 2011, details of derivatives not applied to hedging accounting are as follows:

i. Foreign exchange swap contracts

<u>2012.12.31</u>		<u>2011.12.31</u>	
<u>Principal (USD)</u>	<u>Term</u>	<u>Principal (USD)</u>	<u>Term</u>
\$ 2,200,000	2012.12.24~2013.01.22	2,900,000	2011.12.29~2012.01.17
5,340,000	2012.12.24~2013.01.22	9,400,000	2011.12.29~2012.01.17
9,400,000	2012.12.24~2013.01.22	3,200,000	2011.12.29~2012.01.17
-		5,340,000	2011.12.29~2012.01.17
<u>\$ 16,940,000</u>		<u>20,840,000</u>	

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ii. Foreign currency forward contracts

	12.31.2011			
	Notional Principal	Currency	Expiry Date	
Sales of foreign currency forward contracts	USD	500	USD to NTD	2012.12.24~2013.01.09
Sales of foreign currency forward contracts	USD	500	USD to NTD	2012.12.24~2013.02.08
Sales of foreign currency forward contracts	USD	300	USD to NTD	2012.12.19~2013.01.14
Sales of foreign currency forward contracts	USD	200	USD to NTD	2012.12.19~2013.01.22
Sales of foreign currency forward contracts	USD	200	USD to NTD	2012.12.19~2013.02.20
Sales of foreign currency forward contracts	USD	<u>100</u>	USD to NTD	2012.12.26~2013.01.08
Total	USD	<u>1,800</u>		

	12.31.2011			
	Notional Principal	Currency	Expiry Date	
Sales of foreign currency forward contracts	USD	400	USD to NTD	2011.12.16~2012.01.13
Sales of foreign currency forward contracts	USD	700	USD to NTD	2011.11.10~2012.01.09
Sales of foreign currency forward contracts	USD	500	USD to NTD	2011.11.22~2012.01.09
Sales of foreign currency forward contracts	USD	500	USD to NTD	2011.11.23~2012.02.09
Sales of foreign currency forward contracts	USD	600	USD to NTD	2011.12.13~2012.02.09
Sales of foreign currency forward contracts	USD	<u>700</u>	USD to NTD	2011.12.29~2012.03.09
Total	USD	<u>3,400</u>		

4.2.3 Available-for-sale financial assets - noncurrent

	<u>2012.12.31</u>	<u>2011.12.31</u>
GSI TECHNOLOGY INC. (GSIT)	\$ 71,105	82,425
eGalax_eMPIA Technology Inc. (EETI)	353,239	352,584
INPAQ Technology Co., Ltd. (INPAQ)	<u>70,940</u>	<u>74,447</u>
Total	<u>\$ 495,284</u>	<u>509,456</u>

4.2.4 Financial assets carried at cost - noncurrent

	<u>2012.12.31</u>	<u>2011.12.31</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.	45,000	45,000
Private stock – Jya-Nay Co., Ltd.	32,741	-
Less: Accumulated Impairment	<u>(29,809)</u>	<u>-</u>
Total	<u>\$ 552,992</u>	<u>550,060</u>

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4.3 Notes and Accounts Receivable

Details:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Notes receivable	\$ 116,931	96,648
Accounts receivable	3,102,891	3,716,207
Less: Allowance for collectible accounts	<u>(62,790)</u>	<u>(69,409)</u>
	<u>\$ 3,157,032</u>	<u>3,743,446</u>

As of December 31, 2012 and 2011, 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.

Allowances for notes and accounts receivables are as follows:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Beginning balance	\$ 69,409	67,974
Bad debt (reverse gain) for current period	(5,662)	1,608
Write-offs for current period	(529)	(711)
Net exchange difference from overseas operating units' financial report	<u>(428)</u>	<u>538</u>
Ending balance	<u>\$ 62,790</u>	<u>69,409</u>

4.4 Inventories

Details:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Merchandise	\$ 1,325,270	1,491,504
Less: Allowance	<u>(88,282)</u>	<u>(101,399)</u>
Subtotal	<u>1,236,988</u>	<u>1,390,105</u>
Finished goods	376,439	374,234
Less: Allowance	<u>(26,858)</u>	<u>(25,210)</u>
Subtotal	<u>349,581</u>	<u>349,024</u>
Semi-finished goods	81,638	117,548
Less: Allowance	<u>(16,944)</u>	<u>(18,668)</u>
Subtotal	<u>64,694</u>	<u>98,880</u>
Work in process	173,993	152,761
Less: Allowance	<u>(5,834)</u>	<u>(6,054)</u>
Subtotal	<u>168,159</u>	<u>146,707</u>
Raw materials	239,293	264,550
Less: Allowance	<u>(7,165)</u>	<u>(2,731)</u>
Subtotal	<u>232,128</u>	<u>261,819</u>
Supplies	4,532	5,043
Less: Allowance	<u>(161)</u>	<u>(95)</u>
Subtotal	<u>4,371</u>	<u>4,948</u>
Total	<u>\$ 2,055,921</u>	<u>2,251,483</u>

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For the years ended December 31, 2012 and 2011, the Consolidated Companies recognized related losses on inventories of NT\$7,155 thousand and NT\$16,229 thousand, respectively, which include changes in inventories of NT\$8,117 thousand in 2012 from the offset of previous inventory net realizable value that was lower than cost recorded under operating expense. For 2011, there were changes in inventory of NT\$6,703 thousand from the write-up of net realizable value and losses on inventories charged.

4.5 Long-term Equity Investments

The Consolidate Companies have not acquired Holygene's new shares according to the percentage owned in May 2011, causing share percentage dropped from 29.79 to 19.63, losing the right 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 2012 and 2011, investment loss under equity method included gain (loss) of NT\$16,869 thousand and (NT\$5,233) thousand.

4.6 Noncurrent assets held for sale

Details:

	2011.12.31
Machinery and equipment	\$ 66,656
Less: Accumulated depreciation	(27,728)
Accumulated impairment	(8,928)
	\$ 30,000

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.

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, 2012 and 2011 are summarized as follows:

	2012.12.31	2011.12.31
Assets leased to others-land	\$ 28,818	28,818
Assets leased to others-building	18,750	18,750
Subtotal	47,568	47,568
Less: Accumulated depreciation	(5,239)	(4,871)
	\$ 42,329	42,697

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4.8 Intangible assets

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Original cost:			
Balance at January 1, 2011	\$ 521,292	85,532	606,824
Additions	-	17,061	17,061
Net exchange difference from overseas operating units' financial report	<u>13,922</u>	<u>(25,920)</u>	<u>(11,998)</u>
Balance at December 31, 2011	<u>\$ 535,214</u>	<u>76,673</u>	<u>611,887</u>
Balance at January 1, 2012	\$ 535,214	76,673	611,887
Additions	-	508	508
Net exchange difference from overseas operating units' financial report	<u>(13,639)</u>	<u>-</u>	<u>(13,639)</u>
Balance at December 31, 2012	<u>\$ 521,575</u>	<u>77,181</u>	<u>598,756</u>
Amortization:			
Balance at January 1, 2011	\$ -	9,971	9,971
Amortization	-	5,010	5,010
Net exchange difference from overseas operating units' financial report	<u>-</u>	<u>(1,671)</u>	<u>(1,671)</u>
Balance at December 31, 2011	<u>\$ -</u>	<u>13,310</u>	<u>13,310</u>
Balance at January 1, 2012	\$ -	13,310	13,310
Amortization	-	11,169	11,169
Net exchange difference from overseas operating units' financial report	<u>-</u>	<u>(807)</u>	<u>(807)</u>
Balance at December 31, 2012	<u>\$ -</u>	<u>23,672</u>	<u>23,672</u>
Book value:			
Balance at January 1, 2011	<u>\$ 521,292</u>	<u>75,561</u>	<u>596,853</u>
Balance at December 31, 2011	<u>\$ 535,214</u>	<u>63,363</u>	<u>598,577</u>
Balance at January 1, 2012	<u>\$ 535,214</u>	<u>63,363</u>	<u>598,577</u>
Balance at December 31, 2012	<u>\$ 521,575</u>	<u>53,509</u>	<u>575,084</u>

4.9 Idle Assets

	<u>2012.12.31</u>	<u>2011.12.31</u>
Machinery and equipments	\$ 58,163	61,238
Other equipments	<u>-</u>	<u>7,695</u>
Subtotal	58,163	68,933
Less: Accumulated depreciation	(4,009)	(7,854)
Accumulated impairment	<u>(54,154)</u>	<u>(61,079)</u>
Total	<u>\$ -</u>	<u>-</u>

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4.10 Short-term Loans

Details:

	2012.12.31	2011.12.31
Unsecured loans	<u>\$ 2,116,071</u>	<u>1,696,007</u>
Interest rate	<u>0.75%~1.297%</u>	<u>0.66%~1.40%</u>

As of December 31, 2012 and 2011, the Consolidated Company's credit lines on short-term loans which have not been used from financial institutions were NT\$2,857,780 thousand and NT\$3,208,322 thousand, and the Consolidated Company does not have to pay any commitment fees for these credit lines.

4.11 Long-term Liabilities

Details:

Creditor	Line of Credit and Key Terms	2012.12.31	2011.12.31
Yuanta, Neihu Branch	With interest paid monthly from June 2008 to June 2013, and principal paid once per month on the average amortization method in the third year, meaning a two-year deferred period of principal payment.	\$ 73,167	219,500
Huanan, Hsin Wei Branch	With interest paid monthly from June 2012 to June 2017, and principal paid once per three months based on the average amortization method in the third year, meaning a two-year deferred period of principal payment.	100,000	-
Taipei Fubon	With interest paid monthly from June 2012 to June 2017, amount is due for settlement.	50,000	-
Taiwan Cooperative Bank, Zhanghe Branch	With interest paid monthly from May 31, 2010 to May 31, 2025, and principal paid once per month on the average amortization method in the third year, meaning a two-year deferred period of principal payment.	96,234	150,000
	Subtotal	319,401	369,500
Less: Current portion		<u>(80,805)</u>	<u>(152,450)</u>
		<u>\$ 238,596</u>	<u>217,050</u>

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

4.11.2 The aforementioned interests are paid in floating interest rate, with an approximation of 1.3330%~1.515% and 1.3002%~1.520% in 2012 and 2011, respectively.

4.11.3 As of December 31, 2012 and 2011, long-term loans not be used by the Consolidated Companies were NT\$600,000 thousand and NT\$0, respectively.

4.11.4 As of December 31, 2012, the loan balance should be paid as follows:

Period	Amount
01.01.2013~12.31.2013	\$ 80,805
01.01.2014~12.31.2014	73,830
01.01.2015~12.31.2015	40,606
01.01.2016~12.31.2016	40,716
01.01.2017~12.31.2017	24,162
01.01.2018 onwards	<u>59,282</u>
	<u>\$ 319,401</u>

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4.12 Bonds Payable

Details:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Total proceeds from issuing convertible bonds	\$ 700,000	593,200
Accumulated amount of buybacks	(595,500)	-
Discount in bonds payable	<u>(3,200)</u>	<u>(25,337)</u>
Balance of bonds payable at the end of period	101,300	567,863
Less: Current portion	<u>(101,300)</u>	<u>(567,863)</u>
Balance of bonds payable at the end of period	\$ -	-
Derivative financial instrument—redemption (buy) and sell (financial assets included in gains or losses in fair value – current)	<u>\$ (1,417)</u>	<u>(3,873)</u>
Equity components (included in capital reserve-options)	<u>\$ 16,909</u>	<u>95,986</u>
	<u>2012.12.31</u>	<u>2011.12.31</u>
Derivative financial instrument—redemption (buy) and sell (Change in fair value recorded as evaluation loss)	<u>\$ 1,788</u>	<u>31,215</u>
Interest Expense	<u>\$ 4,183</u>	<u>7,948</u>

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, 2012, the convertible price is NT\$34.38.

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, 2012 and 2011.

	<u>2012.12.31</u>	<u>2011.12.31</u>
Benefit obligation:		
Vested benefit obligation	\$ (22,127)	(14,917)
Nonvested benefit obligation	<u>(102,996)</u>	<u>(55,308)</u>
Accumulated benefit obligation	(125,123)	(70,225)
Additional benefits based on future salaries	<u>(16,779)</u>	<u>(8,486)</u>
Projected benefit obligation	(141,902)	(78,711)
Fair value of plan assets	<u>83,061</u>	84,894
Funded status	(58,841)	6,183
Unrecognized loss (gain) pension plan	53,905	(13,993)
Additional accrued pension liabilities	<u>(37,126)</u>	-
Accrued pension liabilities	<u>\$ (42,062)</u>	<u>(7,810)</u>

ii. Components of net pension cost are as follows:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 1,411	2,086
Interest cost	1,574	2,792
Actual return on pension plan assets	(1,698)	(1,805)
Pension gain (loss) of amortized pension	<u>(500)</u>	1,919
Net pension cost	<u>\$ 787</u>	<u>4,992</u>

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iii. Actuarial assumptions are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate used in determining present values	2.00%	2.25%
Salary adjustment rate	1.50%	1.50%
Expected rate of return on planned pension assets	2.00%	2.25%

4.13.2 In 2012 and 2011, the Consolidated Companies' domestic subsidiaries have adopted the actuarial pension funds by contributing NT\$27,658 thousand and NT\$26,537 thousand, respectively.

4.13.3 In 2012 and 2011, the Consolidated Companies' foreign subsidiaries have, in accordance with their laws, contributed NT\$21,467 thousand and NT\$15,551 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, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current income tax expense	\$ 140,208	55,136
Deferred income tax expense (benefit)	(751)	19,994
Income tax expense	<u>\$ 139,457</u>	<u>75,130</u>

The components of deferred income tax expense (benefit) for the years listed above are as follows:

	<u>2012</u>	<u>2011</u>
Unrealized loss (gain) on foreign exchange, net	\$ (9,044)	18,216
Unrealized gain on investment, net	6,011	1,097
Loss for market price decline and obsolete and slow-moving inventories	196	(935)
Valuation Allowance- current changes in deferred income tax assets	1,258	5,043
Others	828	(3,427)
	<u>\$ (751)</u>	<u>19,994</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, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Estimated income tax expense calculated based on financial income before income tax	\$ 145,720	183,966
Gain on disposal of marketable securities	(2,247)	(16,747)
Tax-exempt income and investment tax credits	(12,891)	(81,208)
10% surtax on undistributed earnings	4,694	1,265
Permanent differences	(4,300)	(17,114)
Valuation Allowance- current changes in deferred income tax assets	15,111	5,043
Others	(6,630)	(75)
	<u>\$ 139,457</u>	<u>75,130</u>

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4.14.4 The components of deferred income tax assets (liabilities) as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Deferred income tax assets – current:		
Provision for inventory obsolescence	\$ 22,332	22,528
Unrealized loss on foreign exchange, net	1,755	-
Others	4,936	6,395
Net deferred income tax assets – current	<u>29,023</u>	<u>28,923</u>
Deferred income tax liabilities – current:		
Unrealized gain on foreign exchange, net	-	(7,418)
Net deferred income tax liabilities – current	-	(7,418)
Deferred income tax liabilities – current	<u>\$ 29,023</u>	<u>21,505</u>
Deferred income tax assets – noncurrent:		
Unrealized loss on investment, net	\$ 5,705	17,144
Loss carry-forwards	754	12,392
Cumulative translation adjustments	5,532	-
Others	7,009	12,508
Valuation allowance	(9,880)	(38,601)
Net deferred income tax assets – noncurrent	<u>9,120</u>	<u>3,443</u>
Deferred income tax liabilities – noncurrent:		
Investment income under equity method	(48,159)	(40,779)
Cumulated translation adjustments	-	(6,579)
Deferred income tax liabilities – noncurrent	<u>(48,159)</u>	<u>(47,358)</u>
Net deferred income tax liabilities – noncurrent	<u>\$ (39,039)</u>	<u>(43,915)</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 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 2012, the investment allowance is NT\$10,735 thousand.

4.14.7 The tax authorities have examined income tax returns of the Company through 2010.

4.14.8 The integrated income tax system:

	<u>2012.12.31</u>	<u>2011.12.31</u>
Unappropriated earnings after 1998	<u>\$ 1,141,021</u>	<u>1,200,758</u>
Imputation credit account (ICA) balance	<u>\$ 131,923</u>	<u>105,248</u>

	<u>2012 (Expected)</u>	<u>2011 (Actual)</u>
Actual/ estimated creditable ratio for earnings distribution to R.O.C. citizens	<u>13.05%</u>	<u>16.82%</u>

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4.15 Stockholders' Equity

4.15.1 Common Stock and Stock Issuances

As of December 31, 2012 and 2011, 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 2012 and 2011, in compliance with the Securities Exchange Act Section 28-1, the Company bought back common stock of 0 and 863 thousand shares to transfer to employees. As of December 31, 2012, 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 highest amount of shares the Company held from buyback for the period is 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.

4.15.3 Capital Surplus

As of December 31, 2012 and 2011, the components of capital surplus are as follows:

	2012.12.31	2011.12.31
From cash capital increase	\$ 1,687,890	1,687,890
From convertible bonds	1,463,082	1,463,082
From bond options	16,909	95,986
From treasury stock	21,358	11,133
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	22,080	20,331
From expired options	63,672	-
	<u>\$ 3,622,923</u>	<u>3,626,354</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.

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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.) Compensation 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.

- 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, 2012 and 2011, the bonuses to employees and compensation 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 2012 and 2011, bonuses to employees were NT\$91,881 thousand and NT\$105,693 thousand, respectively, and compensations to directors and supervisors were NT\$17,228 thousand and NT\$19,818 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 2011 and 2010 earnings was approved at the shareholders' meetings on June 10, 2012 and June 14, 2011, respectively as follows:

	2011	2010
Employee bonuses-stock	\$ 105,693	117,000
Directors' and supervisors' compensation	19,818	22,000
	<u>\$ 125,511</u>	<u>139,000</u>

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. The 2011 appropriation of earnings did not differ from the resolutions approved by the Company's board of directors.

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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 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, 2012 (NTD)	Issuing Way
2006 1 st ESO Plan	2006.07.10	1	5,000,000	2006.08.21	1,500,000	\$ 49.30	29.40	In turns
"		-	-	2007.06.15	3,500,000	58.50	36.70	"
2007 1 st ESO Plan	2007.11.11	1	10,000,000	2007.12.03	10,000,000	50.00	32.80	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, 2012, details of vested options of ESO Plans are as follows:

ESO Plans	Units Granted Issued	Units Actually Issued	Units Converted	Units Expired	Units Before Converted	Duration
2006 1 st ESO Plan	5,000,000	1,500,000	-	1,500,000	-	2006.08.21 ~ 2012.08.20
"	-	3,500,000	-	-	3,500,000	2007.06.15 ~ 2013.06.14
2007 1 st ESO Plan	10,000,000	10,000,000	-	-	10,000,000	2007.12.03 ~ 2017.12.02
Total	\$ 15,000,000	15,000,000	-	1,500,000	13,500,000	

According to standards of No. 70, No. 71 and No.72, issued by the Accounting Research and Development Foundation on March 17, 2003, all enterprises should follow those standards if the granted date or the revised date that they issued their employee stock options were later than January 1, 2004. Pursuant to the Statement of Financial Accounting Standards No.39, "Share-based payment," the aforementioned employee stock options need not be retroactively 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, 2012 and 2011 since market value of stock at measurement date was equal to exercise price.

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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 2012 and 2011. Assumptions used to estimate the fair value of the aforementioned employee stock options are summarized as follows:

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

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

<u>Stock Option</u>	<u>2012</u>		<u>2011</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	\$ 35.77	15,000	38.27
Option granted	-	-	-	-
Options exercised	-	-	-	-
Option expired	<u>(1,500)</u>	-	<u>-</u>	-
Outstanding balance at the end	<u>13,500</u>	33.81	<u>15,000</u>	35.77
Exercisable balance at the end	<u>11,500</u>	33.98	<u>10,500</u>	35.93
Weighted average fair value of options for the current period	<u>-</u>	-	<u>-</u>	-

(iii) As of December 31, 2012, details of outstanding options of the ESO plans are as follows:

<u>Exercise price (NT\$)</u>	<u>Outstanding stock options as of Dec. 31, 2012</u>			<u>Vested options</u>	
	<u>Units</u>	<u>Remaining vesting period</u>	<u>Exercise price (NT\$)</u>	<u>Units as of 2012.12.31</u>	<u>Exercise price (NT\$)</u>
\$ 36.70	3,500,000	0.45	\$ 36.70	3,500,000	\$ 36.70
32.80	10,000,000	4.93	32.80	8,000,000	32.80

(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>2011</u>	<u>2010</u>
Net income	Net income as reported	\$ 655,123	761,510
	Pro forma net income	655,123	761,510
Basic earnings per share (NT Dollars)	Basic EPS as reported	2.05	2.38
	Pro forma basic EPS	2.05	2.38

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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:

	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Basic EPS				
Net income	<u>\$ 772,678</u>	<u>655,123</u>	<u>795,489</u>	<u>761,510</u>
Weighted average number of shares outstanding (in thousand)	<u>319,354</u>	<u>319,354</u>	<u>319,599</u>	<u>319,599</u>
Basic EPS (NT Dollars)	<u>\$ 2.42</u>	<u>2.05</u>	<u>2.49</u>	<u>2.38</u>
Diluted EPS				
Net income	\$ 772,678	655,123	795,489	761,510
Effect of dilution on potential common stock – convertible bonds	<u>4,183</u>	<u>4,183</u>	<u>7,948</u>	<u>7,948</u>
Diluted EPS-net income	<u>\$ 776,861</u>	<u>659,306</u>	<u>803,437</u>	<u>769,458</u>
Weighted-average number of shares outstanding (in thousands)	319,354	319,354	319,599	319,599
Expensing employee bonus	5,469	5,469	5,678	5,678
Employee stock options	-	-	24	24
Domestic convertible bond	<u>8,511</u>	<u>8,511</u>	<u>17,250</u>	<u>17,250</u>
Diluted EPS- weighted-average number of shares outstanding (in thousand)	<u>333,334</u>	<u>333,334</u>	<u>342,551</u>	<u>342,551</u>
Diluted EPS (NT Dollars)	<u>\$ 2.33</u>	<u>1.98</u>	<u>2.35</u>	<u>2.25</u>

4.17 Additional Disclosure on Financial Instruments

4.17.1 Fair value information

As of December 31, 2012 and 2011, the fair value of the Consolidated Companies' financial assets and liabilities is as follows:

	2012.12.31		2011.12.31	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and cash equivalents	\$ 3,025,810	3,025,810	2,941,203	2,941,203
Financial assets at fair value through profit or loss - current:	440,221	440,221	336,353	336,353
Notes and accounts receivable	3,157,032	3,157,032	3,743,446	3,743,446
Other financial assets - current	187,284	187,284	216,974	216,974
Available-for-sale financial assets - noncurrent	495,284	495,284	509,456	509,456
Financial assets carried at cost - noncurrent	552,992	(Note)	550,060	(Note)
Financial liabilities:				
Short-term loans	\$ 2,116,071	2,116,071	1,696,007	1,696,007
Financial liabilities at fair value through profit or loss - current:	1,417	1,417	4,033	4,033
Notes and accounts payable (including related parties)	1,197,131	1,197,131	1,556,126	1,556,126
Bonds payable (current portion)	101,300	101,300	567,863	567,863
Long-term borrowing (including current portion)	319,401	319,401	369,500	369,500

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.

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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.

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:

	2012.12.31		2011.12.31	
	<u>Publicly quoted market prices</u>	<u>Fair value based on valuation technique</u>	<u>Publicly quoted market prices</u>	<u>Fair value based on valuation technique</u>
Financial assets:				
Cash and cash equivalents	\$ -	3,025,810	-	2,941,203
Financial assets at fair value through profit or loss-current:	439,99	228	336,353	-
Notes and accounts receivable	-	3,157,032	-	3,743,446
Other financial assets - current	-	187,284	-	216,974
Available-for-sale financial assets - noncurrent	495,28	-	509,456	-
Financial liabilities:				
Short-term loans	-	2,116,071	-	1,696,007
Financial liabilities at fair value through profit or loss-current:	-	1,417	-	4,033
Notes and accounts payable (including related parties)	-	1,197,131	-	1,556,126
Bonds payable (current portion)	-	101,300	-	567,863
Long-term borrowing (including current portion)	-	319,401	-	369,500

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.

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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

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, 2012, the change in interest expense would have been NT\$24,355 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

5.2.1 Purchases

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
EETI	\$ 48,403	0.44	99,724	0.78
Others	4,178	0.04	-	-
	<u>\$ 52,581</u>	<u>0.48</u>	<u>99,724</u>	<u>0.78</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>2012.12.31</u>		<u>2011.12.31</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Notes and accounts payable:				
EETI	\$ 5,797	0.48	23,026	1.48
Others	403	0.03	-	-
	<u>\$ 6,200</u>	<u>0.51</u>	<u>23,026</u>	<u>1.48</u>

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5.3 Main Managers' Compensation

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

	<u>2012</u>	<u>2011</u>
Salaries	\$ 45,668	45,147
Awards and special allowances	480	394
Expense of execution	2,280	1,920
Employees' bonus	16,480	19,200

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

6. Pledged Assets

As of December 31, 2012 and 2011, 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>2012.12.31</u>	<u>2011.12.31</u>
Time deposits (recognized as the other financial assets-current)	Line of credit and secured by customs service	\$ 25,006	49,230
Land	Short- and Long-term loans	156,522	156,522
Buildings	“	65,884	69,314
Total		<u>\$ 247,412</u>	<u>275,066</u>

7. Commitments and Contingencies

As of December 31, 2012 and 2011, the Consolidated Companies' outstanding letters of credit, which facilitate the Consolidated Companies' purchase of materials, amounted to NT\$89,746 thousand and NT\$639,284 thousand, respectively.

8. Significant Disaster Loss: None.

9. Significant Subsequent Events: None.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Others

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

Characters	Functions	2012			2011		
		Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personal Costs							
Payroll		368,146	608,770	976,916	331,575	626,647	958,222
Labor and health		44,065	48,651	92,716	41,901	46,539	88,440
Pension expense		21,718	28,194	49,912	20,052	27,028	47,080
Other (Note)		13,422	11,295	24,717	20,913	11,814	32,727
Depreciation		261,618	40,690	302,308	238,590	33,654	272,244
Amortization		2	14,089	14,091	5	6,388	6,393

Note: Including meal expenses and training expenses.

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

	2012.12.31		2011.12.31		
	<u>Foreign Currency</u>	<u>Rate</u>	<u>Foreign Currency</u>	<u>Rate</u>	
<u>Financial Assets</u>					
<u>Currency-related items</u>					
USD	\$	155,209	29.04	179,282	30.275
EUR		1,142	37.56	31	39.18
HKD		12,264	3.747	13,050	3.897
JPY		451,987	0.3364	309,883	0.3906
CHF		232	31.825	1,141	32.175
<u>Noncurrency-related items</u>					
USD		344	29.04	333	30.275
HKD		2,871	3.747	2,636	3.897
<u>Financial Liabilities</u>					
<u>Noncurrency-related items</u>					
USD		109,187	29.04	97,583	30.275
JPY		470,939	0.3364	412,816	0.3906
GBP		200	46.83	28	46.73
CHF		328	31.825	238	32.175

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10.3 As required by the Financial Supervisory Commission Executive Yuan (hereinafter referred to as FSC), 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) starting from 2013. In response to the amendment, the Company has designated a project team to follow the adoption plan. This project is lead by Ms. 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	Completed
◎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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10.4 Significant differences between the two accounting policies through the Company's current assessment are as follows:

10.4.1 Adjustment table on January 1, 2012

	Taiwan GAAP	Affected Amount	IFRSs
Current assets(2)	\$ 9,604,133	2,873	9,607,006
Items not affected	4,864,551	-	4,864,551
Total assets	\$ 14,468,684	2,873	14,471,557
Current liabilities(3)	\$ 4,520,404	6,958	4,527,362
Other liabilities(2)	69,017	(7,810)	61,207
Items not affected	217,050	-	217,050
Total liabilities	\$ 4,806,471	(852)	4,805,619
Capital reserve(1)	\$ 3,626,354	63,819	3,690,173
Retained earnings(1)(2)(3)	2,060,819	(60,094)	2,000,725
Items not affected	3,975,040	-	3,975,040
Stockholders' equity	\$ 9,662,213	3,725	9,665,938

10.4.2 Adjustment table on December 31, 2012

	Taiwan GAAP	Affected Amount	IFRSs
Current assets(2)	\$ 8,994,689	-	8,994,689
Items not affected	4,887,452	-	4,887,452
Total assets	\$ 13,882,141	-	13,882,141
Current liabilities(3)	\$ 3,965,510	6,982	3,972,492
Other liabilities(2)	82,530	20,014	102,544
Items not affected	238,596	-	238,596
Total liabilities	\$ 4,286,636	26,996	4,313,632
Capital reserve(1)	\$ 3,622,923	78,667	3,701,590
Retained earnings(1)(2)(3)	2,077,233	(142,789)	1,934,444
Net loss not recognized as pension cost(2)	(37,126)	37,126	-
Items not affected	3,932,475	-	3,932,475
Stockholders' equity	\$ 9,595,505	(26,996)	9,568,509

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10.4.3 Adjustment table for 2012

	<u>Taiwan GAAP</u>	<u>Affected Amount</u>	<u>IFRSs</u>
Sales revenue	\$ 14,607,834	-	14,607,834
Cost of goods sold	(12,739,110)	-	(12,739,110)
Gross profit	1,868,724	-	1,868,724
Operating Expenses(1)(3)	(1,219,946)	(14,872)	(1,234,818)
Operating Income	648,778	(14,872)	633,906
Non-operating income and expenses(2)	126,607	10,052	136,659
Consolidated net income before tax	775,385	(4,820)	770,565
Tax expense	(139,457)	-	(139,457)
Consolidated net income	<u>\$ 635,928</u>	<u>(4,820)</u>	<u>631,108</u>

10.4.4 Details on adjustment:

- (1) Consolidated companies' share-based payments shall be calculated using fair value method and record related compensation costs in accordance to IFRSs. On January 1, 2012, the Consolidated Companies made adjustments to decrease retained earnings by NT\$63,819 thousand and to increase capital reserve by NT\$63,819 thousand; in 2012, increase salary expense by NT\$14,848 thousand; and on December 31, 2012, decrease retained earnings by NT\$78,667 thousand and increase capital reserve by NT\$78,667 thousand.
- (2) The welfare plans given to retired employees are measured by actuarial techniques. Actuarial gains or losses incurred from adjustments in experience and estimations in actuarial calculations are amortized by employees' remaining service years and recorded as gains or losses in accordance to Taiwan's GAAP. IFRSs Bulletin No.1 "First-time Adoption of International Financial Reporting Standards" (hereinafter referred to as IFRS 1) as adopted by the Consolidated Companies exempt this rule. On January 1, 2012 conversion day, the aforementioned actuarial gains or losses, totaling NT\$10,683 thousand, were immediately recorded under equity. In addition, since the discount rate used for actuarial estimations under Taiwan GAAP is different from that of IFRSs, pension income in 2012 was adjusted to NT\$10,052 thousand.
- (3) Consolidated companies have a present legal or presumption payment obligation towards providing paid leave to employees based on their past performances. According to this rule, the Consolidated Company shall record expected costs on accumulated paid leaves under accrued liabilities. In January 1, 2012 to December 31, 2012, retained earning amounts are adjusted to NT\$6,958 thousand and NT\$6,982 thousand, respectively. In addition, 2012 expected costs on accumulated paid leave recorded as salary expense totaled NT\$24 thousand.
- (4) Other remarks:

About the accountings on foreign currency translation, New Taiwanese Dollar will remain as the Company's functional currency after evaluation, and this has not had a significant impact on the financial reports.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10.5 As required in IFRS 1, unless a selectively excused or mandatorily required, all companies adopting IFRS should adopt all the requirements in effect and adjust accordingly. The parts where the Company selectively excuses are as follow:

1. There will not be adjustments or restatements on mergers and acquisitions, acquisitions of subsidiaries and transactions with affiliated parties before December 31, 2011.
2. There will not be adjustments or restatements on experience adjustments or change in actuarial estimations on pension plans. Actuarial gains and losses are recognized under equity on conversion day.
3. There will not be adjustments or recalculations of compensation costs on employee stock option plans issued before conversion day and subsequently vested before December 31, 2011.

10.6 The Company uses FSC approved IFRSs for the above assessments. However, there may be significant differences between current accounting principles and IFRSs. Accounting policies adopted through IFRS 1 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 2012, 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:

Unit: USD/ JPY

No.	Endorser/ Guarantor Company	Endorsee/Guarantee		Quotas of Endorsement/ Guarantee for Single Enterprise	Endorsement/ Guarantee Balance, Highest	Endorsement/ Guarantee Balance, Ended	Actual Amount Used	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.	First-tier Subsidiary	1,818,620	20,000	-	-	-	-	4,502,141
0	The Company	Holy Stone Polytech Co., Ltd.	Second-tier subsidiary	1,818,620	299,900 (USD10,000,000)	290,400 (USD10,000,000)	168,200 (JPY500,000,000)	-	3.23%	4,502,141
0	The Company	Holy Stone Holding Co., Ltd.	First-tier Subsidiary	1,818,620	149,950 (USD5,000,000)	145,200 (USD5,000,000)	-	-	1.61%	4,502,141
0	The Company	Rong Jhan Investment Co.	First-tier Subsidiary	1,818,620	150,000	150,000	-	-	1.67%	4,502,141

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 CONSOLIDATED 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, 2012				Highest ownership within period		Note
				Shares (unit)	Shares (unit)	Percentage of Ownership	Carrying Value	Shares (unit)	Percentage of Ownership	
The Company	Cathay China Hong Kong and Taiwan Fund	-	Financial assets at fair value through profit or loss - current - open-ended fund	489	3,861	-	3,861	-	-	-
The Company	HSBC Chinese Dim Sum High Yield Bond	-	"	2,857	30,069	-	30,069	-	-	-
The Company	Yuanta Global REITs Fund	-	"	1,193	10,752	-	10,752	-	-	-
The Company	Asia-Pacific Composite High Yield Bond Fund	-	"	880	10,033	-	10,033	-	-	-
The Company	F-Asian Plastic Corporate Bond A	-	Financial assets at fair value through profit or loss - current - bond	250	26,530	-	26,530	-	-	-
The Company	Gemtek Corporate Bond C	-	"	1,000	100,000	-	100,000	-	-	-
The Company	K.S. Terminals Corporate Bond B	-	"	800	82,424	-	82,424	-	-	-
The Company	Radium Corporate Bond C	-	"	500	51,510	-	51,510	-	-	-
The Company	Cvilux Corporate Bond C	-	"	50	5,152	-	5,152	-	-	-
The Company	China Electric Corporate Bond A	-	"	200	20,000	-	20,000	-	-	-
The Company	Megaholdings Convertible Bond (288601)	-	"	260	25,714	-	25,714	-	-	-
The Company	Convertible Bonds	-	Financial assets at fair value through profit or loss - current - foreign stock	20	9,383	-	9,383	-	-	-
The Company	China Everbright Int	-	"	115	1,689	-	1,689	-	-	-
The Company	Ju Teng Int	-	"	150	2,057	-	2,057	-	-	-
The Company	Nagacorp	-	"	200	3,522	-	3,522	-	-	-
The Company	Cosco	-	"	50	2,069	-	2,069	-	-	-
The Company	Chu Kong Petro	-	"	100	1,536	-	1,536	-	-	-
The Company	Holy Stone Enterprise (Hong Kong) Stock	Subsidiary of the Company	Long-term equity investment	11,500	199,684	100.00	199,684	-	-	Note
The Company	Holy Stone Holdings Co., Ltd. Stock	"	"	26,976	941,527	100.00	942,737	-	-	Note
The Company	UHOLY Investments Co., Ltd. Stock	"	"	22,500	399,753	57.69	398,225	-	-	Note
The Company	Martek Co., Ltd. Stock	"	"	8,500	124,416	100.00	124,416	-	-	Note
The Company	Rong Jhan Investments Co., Ltd. Stock	"	"	55,000	591,278	100.00	591,278	-	-	Note
The Company	GSI TECHNOLOGY INC. Stock	-	Available-for-sale financial assets - noncurrent	391	71,105	1.82	71,105	-	-	-
The Company	Chinatrust Financial Holding Co., Ltd. Preferred stock	-	Financial assets carried at cost - noncurrent	7,500	300,000	-	300,000	-	-	-

Note: 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 Currency Market Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	52,937	740,000	52,937	740,802	740,000	802	-	-	-
The Company	Mega Diamond Currency Market Fund	"	-	-	-	-	107,398	1,300,000	107,398	1,301,887	1,300,000	1,887	-	-	-
The Company	Taishin 1699 Money Market	"	-	-	-	-	74,220	970,000	74,220	971,378	970,000	1,378	-	-	-
The Company	Taishin Public Money Market	"	-	-	-	-	72,068	990,000	72,068	991,210	990,000	1,210	-	-	-
The Company	Yuanta Cosmos Currency Market	"	-	-	-	-	69,634	1,020,000	69,634	1,021,779	1,020,000	1,779	-	-	-
The Company	Capital Secure Currency Market	"	-	-	-	-	17,892	280,000	17,892	280,219	280,000	219	-	-	-

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 International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	Sales	891,565	7.15%	Next month-end 150 days	-	-	445,492	14.70%	Note
The Company	Holy Stone Enterprise (H.K)	First-tier Subsidiary	Sales	827,398	6.64%	Next month-end 120 days	-	-	213,683	7.05%	Note
The Company	Infortech (CHINA) Co., Ltd.	Third-tier Subsidiary	Sales	328,937	2.64%	Month-end 120 days	-	-	116,381	3.84%	Note
The Company	Holy Stone Polytech Co., Ltd.	Second-tier Subsidiary	Purchases	244,022	2.39%	Month-end 45 days	-	-	(11,433)	1.06%	Note

Note: Eliminated while filing consolidated financial statements.

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)	First-tier Subsidiary	213,683	2.46	-	-	68,640	-	-
The Company	Holy Stone International Trading Co., Ltd. (Shanghai)	Third-tier Subsidiary	445,492	1.76	-	-	129,804	-	-
The Company	Infortech (CHINA) Co., Ltd.	Third-tier Subsidiary	116,381	2.61	-	-	-	-	-

Note: 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 2012.

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

Related information on investee companies of 2012 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, 2012			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%	199,684	30,114	30,114	Subsidiary of the Company	Note
The Company	Holy Stone Holdings Co., Ltd.	Samoa	Investment activities	841,951	841,951	26,976	100.00%	941,527	12,691	13,293	Subsidiary of the Company	Note
The Company	UHOLY Investments Co., Ltd.	Taipei City	Investment activities	225,000	225,000	22,500	57.69%	399,753	(3,485)	(2,009)	Subsidiary of the Company	Note
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%	124,416	18,248	18,248	Subsidiary of the Company	Note
The Company	Rong Jhan Investments Co., Ltd.	Taipei City	Investment activities	340,000	340,000	55,000	100.00%	591,278	15,698	15,698	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 9,261,456	USD 445,147	USD 445,147	Subsidiary of Holy Stone Holdings Co., Ltd.	Note
Holy Stone Holdings	Holypaq Corporation	Cayman	Investment activities	USD 1,200,000	USD 1,200,000	1,200	100.00%	USD 35,666	USD (249,111)	USD (249,111)	Subsidiary of Holy Stone Holdings Co., Ltd.	Note
Holy Stone Holdings	Green Glory Holdings Ltd.	Samoa	Investment activities	USD 2,140,624	USD 2,140,624	2,210	100.00%	USD 1,583,971	USD 27,662	USD 27,662	Subsidiary of Holy Stone Holdings 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 16,606,312	USD 985,871	USD 985,871	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 483,802,256	JPY 483,000,000	48	98.78%	USD 3,819,221	JPY (73,351,892)	USD (905,893)	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	JPY 350,000,000	4	100.00%	USD 3,855,911	JPY 382,044	USD 4,775	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 5,714,841	CNY 961,650	USD 152,325	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 3,512,469	CNY 1,851,643	USD 293,300	Subsidiary of Holy Stone Investments Co., Ltd.	Note
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 17,185	CNY (1,549,563)	USD (245,451)	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 891,291	CNY 118,866	USD 18,828	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 436,274	USD 22,518	USD 22,518	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 238,275	GBP (8,116)	USD (12,864)	Subsidiary of Green Glory Holdings	Note
UHOLY Investments Co., Ltd.	Holy Stone Healthcare Co., Ltd.	Taipei City	Western medicine wholesaling and medical instruments wholesaling	135,107	94,107	12,247	36.45%	81,884	(43,192)	(9,745)	UHOLY's long-term investee recognized under equity method	Note
Holy Stone Healthcare Co., Ltd.	MDT Int'l SA	Switzerland	Medical instruments trading	CHF 1,581,000	CHF 1,275,000	1,581	62.00%	28,783	CHF 202,943	(8,036)	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%	4,234	USD (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%	401,420	24,086	16,860	Subsidiary of Rong Jhan Investments Co., Ltd.	Note
Rong Jhan Investments Co.	Aveo Multimedia Corporation	Taipei County	Electronic components manufacturing	34,180	34,180	3,418	34.18%	22,730	(17,326)	(5,922)	Subsidiary of Rong Jhan Investments Co., Ltd.	Note
OHGA Electronics Co., Ltd.	Aveo Multimedia Corporation	Taipei County	Electronic components manufacturing	10,000	10,000	1,000	10.00%	6,650	(17,326)	(1,733)	Subsidiary of Rong Jhan Investments Co., Ltd.	Note
Aveo Multimedia Corporation	HAV Co., Ltd.	Samoa	Investment activities	USD 1,650,000	USD 1,500,000	1,650	100.00%	14,854	USD (541,294)	(16,008)	Subsidiary of Aveo Multimedia Corporation	Note

Note: Eliminated while filing consolidated financial statements.

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11.2.2 Financing to related parties:

Unit: Thousand of USD

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	-	17,994 (USD3,000,000)	-	-	-	Necessary for short-term financing	-	Operation turnover	-	-	-	11,212	44,849	-
2	Holy Stone Enterprise (H.K) Co., Ltd.	Holy Stone Holding Co	Other receivables	44,985 (USD1,500,000)	43,560 (USD1,500,000)	43,560 (USD1,500,000)	1.80%	Necessary for short-term financing	-	Operation turnover	-	-	-	9,004,283	9,004,283	Note 2
3	Holy Stone Holding Co.	Infortech (China) Co., Ltd.	Other receivables	74,975 (USD2,500,000)	72,600 (USD2,500,000)	60,984 (USD2,100,000)	2.20%	Necessary for short-term financing	-	Operation turnover	-	-	-	9,004,283	9,004,283	Note 2
4	Holy Stone Holding Co.	Holy Stone International Trading (Shanghai) Co., Ltd.	-	90,825 (USD3,000,000)	-	-	-	Necessary for short-term financing	-	Operation turnover	-	-	-	9,004,283	9,004,283	-

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: Eliminated while filing consolidated financial statements.

11.2.3 Endorsement/guarantee provided: None.

11.2.4 Marketable securities held:

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

Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				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 9,261,456	100.00	USD 9,261,456	6,900	100.00	-
Holy Stone Holdings Co., Ltd.	Holypaq Corporation Stocks	Subsidiary of H.S.H	Long-term equity investment	1,200	USD 35,666	100.00	USD 35,666	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 1,583,971	100.00	USD 1,583,971	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 16,606,312	100.00	USD 16,606,312	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	48	USD 3,819,221	98.78	JPY 333,302,866	48	98.78	Note
Holy Stone Holdings Co., Ltd.	Everplus Material Co., Ltd. Stocks	Subsidiary of H.S.H	Long-term equity investment	4	USD 3,855,911	100.00	JPY 332,406,127	4	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 5,714,841	100.00	CNY 35,606,489	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 3,512,469	100.00	CNY 21,884,542	-	-	Note
Holypaq Corporation	Holypaq Electronics Corporation Equity	Subsidiary of Holypaq Corporation	Long-term equity investment	1,000	USD 17,185	100.00	CNY 107,072	-	-	Note
Green Glory Holdings Ltd.	Infortech International Trading (Shanghai) Ltd. Equity	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	1,000	USD 891,291	100.00	CNY 5,553,215	-	-	Note
Green Glory Holdings Ltd.	Milestone Global Technology Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	500	USD 436,274	100.00	USD 436,274	-	-	Note
Green Glory Holdings Ltd.	Holystone (Europe) Ltd. Stocks	Subsidiary of Green Glory Holdings Ltd.	Long-term equity investment	350	USD 238,275	100.00	GBP 147,758	-	-	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 27,937	-	HKD 212,776	-	-	-
UHOLY Investments Co. Ltd.	Holy Stone Healthcare Co. Ltd. Stocks	Subsidiary of UHOLY Investments Co. Ltd.	Long-term equity investment	12,247	81,884	36.45	81,884	12,247	36.45	Note
UHOLY Investments Co. Ltd.	EETI Stocks	-	Available-for-sale financial assets - noncurrent	5,809	353,239	12.05	353,239	-	-	-
UHOLY Investments Co. Ltd.	INPAQ Technology Co., Ltd. Stocks	-	Available-for-sale financial assets - noncurrent	4,124	70,940	4.15	70,940	-	-	-
UHOLY Investments Co. Ltd.	Innovation Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	8,900	89,000	19.78	91,044	-	-	-
UHOLY Investments Co. Ltd.	C2 MICROSYSTEMS INC. Preferred stocks	-	Financial assets carried at cost - noncurrent	1,200	-	3.20	-	-	-	-
UHOLY Investments Co. Ltd.	Zelltek Technology Corp. Stocks	-	Financial assets carried at cost - noncurrent	859	19,757	3.76	7,535	-	-	-
UHOLY Investments Co. Ltd.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent	599	2,994	1.44	3,976	-	-	-
UHOLY Investments Co. Ltd.	Innostone Venture Capital Corp. Stocks	-	Financial assets carried at cost - noncurrent	5,900	59,000	19.67	56,347	-	-	-
Holy Stone Healthcare Co.	MDT INT'L SA Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	1,581	28,783	62.00	CHF 1,458,732	1,581	62.00	Note
Holy Stone Healthcare Co.	Global Search Holdings Ltd. Stocks	Subsidiary of Holy Stone Healthcare Co.	Long-term equity investment	150	4,234	100.00	USD 145,798	150	100.00	Note
Rong Jhan Investments Co. Ltd.	Metanoia Communication Inc. Stocks	-	Financial assets carried at cost - noncurrent	150	4,500	0.36	994	-	-	-
Rong Jhan Investments Co. Ltd.	Grand Fortune Securities Co., Ltd. Stocks	-	Financial assets carried at cost - noncurrent	5,000	45,000	2.50	41,548	-	-	-

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Holding Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				Highest Ownership within period		Remarks
				Shares (units)	Carrying Value	% of Ownership	Market Value or Net Asset Value	Shares (units)	% of Ownership	
Rong Jhan Investments Co. Ltd.	Jya-Nay Co., Ltd. Stocks	-	Financial assets carried at cost - noncurrent	2,976	32,741	12.40	28,520	-	-	-
Rong Jhan Investments Co. Ltd.	OHGA Electronics Co., Ltd. Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	15,120	401,420	70.00	234,315	15,120	70.00	Note
Rong Jhan Investments Co. Ltd.	Aveo Multimedia Corporation Stocks	Subsidiary of Rong Jhan Investments Co.	Long-term equity investment	3,418	22,730	34.18	22,730	3,418	34.18	Note
Rong Jhan Investments Co. Ltd.	Well Shin Technology Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	102	4,157	-	4,157	-	-	-
Rong Jhan Investments Co. Ltd.	Ili Technology Corporation Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	20	1,830	-	1,830	-	-	-
Rong Jhan Investments Co. Ltd.	Coxon Precise Industrial Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	70	4,137	-	4,137	-	-	-
Rong Jhan Investments Co. Ltd.	Rechi Precision Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	100	2,520	-	2,520	-	-	-
Rong Jhan Investments Co. Ltd.	Jess-Link Products Co., Ltd. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	10	261	-	261	-	-	-
Rong Jhan Investments Co. Ltd.	Quanta Computers Inc. Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	20	1,366	-	1,366	-	-	-
Rong Jhan Investments Co. Ltd.	Daxin Materials Corporation Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	47	2,411	-	2,411	-	-	-
Rong Jhan Investments Co. Ltd.	W.I.S.E. Yuanta/Polaris CSI 300 Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	200	2,942	-	2,942	-	-	-
Rong Jhan Investments Co. Ltd.	Shinkong Synthetic Fibers Corporation Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	200	1,942	-	1,942	-	-	-
Rong Jhan Investments Co. Ltd.	UDE Corporation Stocks	-	Financial assets at fair value through profit or loss - current - domestic stock	20	1,298	-	1,298	-	-	-
OHGA Electronics Co.	Holy Stone Healthcare Co. Ltd. Stocks	Subsidiary of Rong Jhan Investments Co. Ltd.	Long-term equity investment	1,000	6,650	10.00	6,650	1,000	10.00	Note
OHGA Electronics Co.	ASW Cvilux C	-	Financial assets at fair value through profit or loss - current - bonds	100	10,303	-	10,303	-	-	-
OHGA Electronics Co.	ASW Wah Hong A	-	Financial assets at fair value through profit or loss - current - bonds	90	9,411	-	9,411	-	-	-
OHGA Electronics Co.	ASW K.S. Terminals B	-	Financial assets at fair value through profit or loss - current - bonds	100	10,303	-	10,303	-	-	-
Aveo Multimedia Corporation	HAV Co., Ltd. Stocks	Subsidiary of Aveo Multimedia Corporation	Long-term equity investment	1,650	14,854	100.00	USD 511,500	1,650	100.00	Note

Note: 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:

Holding Company	Marketable Securities Type and Name	Financial Statement Account	Trade Target	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
Rong Jhan Investments Co. Ltd.	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss -current	-	-	9,917	120,000	9,917	120,215	120,000	215	9,917	120,000	-	-	-
Martek Co., Ltd.	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss -current	-	-	13,566	164,000	13,566	164,235	164,000	235	13,566	164,000	-	-	-
Holy Stone Healthcare Co., Ltd.	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss -current	-	-	33,511	406,000	33,511	406,417	406,000	417	33,511	406,000	-	-	-

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	Purchases	827,398	96.57%	Next month-end 120 days	-	-	(213,683)	98.22%	Note
Holy Stone international trading (Shanghai) Co., Ltd.	The Company	Third-tier Subsidiary	Purchases	891,565	94.64%	Next month-end 150 days	-	-	(445,492)	100%	Note
Infortech (CHINA) CO., LTD.	The Company	Third-tier Subsidiary	Purchases	328,937	98.51%	Month-end 120 days	-	-	(116,381)	89.49%	Note
Holy Stone Polytech Co., Ltd.	The Company	Second-tier Subsidiary	Sales	244,022	38.72%	Month-end 45 days	-	-	11,433	9.58%	Note

Note: Eliminated while filing consolidated financial statements.

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 2012:

No.	Company Name	Derivative	Nominal Principal (thousand)	Term	Fair Value
1	Martek Co.	Forward Foreign Exchange Contract	USD 300	2012.12.19 ~ 2013.01.14	4
1	Martek Co.	Forward Foreign Exchange Contract	USD 200	2012.12.19 ~ 2013.01.22	3
1	Martek Co.	Forward Foreign Exchange Contract	USD 200	2012.12.19 ~ 2013.02.20	3
1	Martek Co.	Forward Foreign Exchange Contract	USD 100	2012.12.26 ~ 2013.01.08	1
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	2012.12.24 ~ 2013.01.09	12
2	OHGA Electronics Co.	Forward Foreign Exchange Contract	USD 500	2012.12.24 ~ 2013.02.08	10

Investee companies recognized financial assets at fair value through profit or loss – current of \$511 thousand loss in 2012.

11.3 Information on Investment in Mainland China

11.3.1 Status of investment

Unit: USD

Name of Investee in Mainland China	Main Activities of Investee	Capital	Investment Method	Accumulated Remittance as of Jan. 1, 2012	Remitted or Collected This Period		Accumulated Remittance as of Dec. 31, 2012	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, 2012
					Remitted	Collected					
Holy Stone International Trading (Shanghai) Co., Ltd.	Capacitors selling	USD 4,010,000	Setting 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 152,325	USD 5,714,841	-
Holypaq (Dongguan) Corporation	Capacitors manufacturing and selling	USD 21,000,000		USD 21,000,000	-	-	USD 2,100,000	100 %	USD 293,300	USD 3,512,469	-
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 (245,451)	USD 17,185	-
Infortech (CHINA) Co., Ltd.	Electronic components selling	USD 1,000,000		USD 1,000,000	-	-	USD 1,000,000	100 %	USD 18,828	USD 891,291	-

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

Note 2: Financial statement account audited by accountants of parent company

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) 233,898	(USD 8,110,000) 235,514	5,402,569

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.

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11.4 Significant transaction between parent and subsidiaries:

2012:

No. (note 1)	Name	Counterparty	Relation- ship (Note 2)	Transaction status			% of consolidated net sales or consolidated total assets
				Subject	Amount	Condition	
0	The Company	Holy Stone Hong Kong	1	Sales	827,398	Next month-end 120 days	5.66%
0	The Company	Holy Stone Hong Kong	1	Accounts receivable	213,683	Next month-end 120 days	1.54%
0	The Company	Holy Stone Shanghai	1	Sales	891,565	Next month-end 150 days	6.10%
0	The Company	Holy Stone Shanghai	1	Accounts receivable	445,492	Next month-end 150 days	3.21%
0	The Company	Infortech	1	Sales	328,937	Month-end 120 days	2.25%
0	The Company	Infortech	1	Accounts receivable	116,381	Month-end 120 days	0.84%
1	HPC	The Company	2	Sales	244,022	Month-end 45 days	1.67%
1	HPC	The Company	2	Accounts receivable	11,433	Month-end 45 days	0.08%
2	EPM	The Company	2	Sales	83,360	Next month-end 15 days	0.57%
2	EPM	The Company	2	Accounts receivable	6,138	Next month-end 15 days	0.04%

2011:

No. (note 1)	Name	counterparty	Relation- ship (Note 2)	Transaction status			% of consolidated net sales or consolidated total assets
				Subject	Amount	Condition	
0	The Company	Holy Stone Hong Kong	1	Sales	1,244,550	Next month-end 120 days	7.96%
0	The Company	Holy Stone Hong Kong	1	Accounts receivable	459,385	Next month-end 120 days	3.18%
0	The Company	Holy Stone Shanghai	1	Sales	1,241,527	Next month-end 150 days	7.94%
0	The Company	Holy Stone Shanghai	1	Accounts receivable	570,220	Next month-end 150 days	3.94%
0	The Company	Infortech	1	Sales	382,219	Month-end 120 days	2.44%
0	The Company	Infortech	1	Accounts receivable	135,627	Month-end 120 days	0.94%
1	HPC	The Company	2	Sales	243,041	Month-end 45 days	1.55%
1	HPC	The Company	2	Accounts receivable	38,002	Month-end 45 days	0.26%

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:

2012	Electronics sector	Investment sector	Adjustments and Elimination	Consolidated
Income:				
Income from external customers \$	11,428,564	3,179,270	-	14,607,834
Inter-company income	2,059,527	413,758	(2,473,285)	-
Interest income	13,754	23,763	(728)	36,789
Total income	<u>\$ 13,501,845</u>	<u>3,616,791</u>	<u>(2,474,013)</u>	<u>14,644,623</u>
Interest expense	<u>\$ 18,744</u>	<u>6,588</u>	<u>(728)</u>	<u>24,604</u>
Sector profit and loss	<u>\$ 830,694</u>	<u>19,434</u>	<u>(74,743)</u>	<u>775,385</u>
Sector Assets	<u>\$ 10,934,816</u>	<u>3,860,075</u>	<u>(912,750)</u>	<u>13,882,141</u>
Sector Liabilities	<u>\$ 3,863,091</u>	<u>1,336,462</u>	<u>(912,917)</u>	<u>4,286,636</u>

2011	Electronics sector	Investment sector	Adjustments and Elimination	Consolidated
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>

Inter-company sales deductible from consolidated revenue for 2011 and 2010 are NT\$2,474,013 and NT\$3,176,313.

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12.3 Product information

Information on income from external customers is as follows:

<u>Product type</u>	<u>2012</u>	<u>2011</u>
Passive Components	\$ 4,927,312	5,458,963
Active Components	3,757,501	2,957,008
System and Modules	2,251,206	2,717,783
Others	<u>3,671,815</u>	<u>4,503,326</u>
Total	<u>\$ 14,607,834</u>	<u>15,637,080</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>2012</u>	<u>2011</u>
China	\$ 10,075,555	10,813,222
Taiwan	2,998,312	3,314,938
United States	508,421	645,665
Others	<u>1,025,546</u>	<u>863,255</u>
Total	<u>\$ 14,607,834</u>	<u>15,637,080</u>

Noncurrent assets:

<u>Area</u>	<u>2012</u>	<u>2011</u>
Taiwan	\$ 3,183,839	3,128,356
China	478,197	506,583
Others	<u>177,140</u>	<u>170,096</u>
Total	<u>\$ 3,839,176</u>	<u>3,805,035</u>

12.5 Important customers information

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

Customer C	\$ <u>1,807,466</u>	<u>2,501,737</u>
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Holy Stone Enterprise Co., Ltd.

Chairman: Jing-Rong Tang