Systex Corporation

Financial Statements for the
Years Ended December 31, 2010 and 2009 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Systex Corporation

We have audited the accompanying balance sheets of Systex Corporation (the "Corporation") as of December 31, 2010 and 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. Among those investments which are reflected in the accompanying financial statements using the equity method of accounting, we did not audit the financial statements as of and for the years ended December 31, 2010 and 2009 of Enrichment I Venture Capital Corporation; Hanmore Investment Corporation's investee company accounted for using the equity method: Enrichment I Venture Capital Corporation; Kimo.com (BVI) Corporation's investee company accounted for using the equity method: Systex Information (H.K.) Ltd.; and Systex Capital Group Incorporation's investee company using the equity method: AFE Solutions Limited. The aggregate carrying values of these equity-method investments as of December 31, 2010 and 2009 were NT$541,526 thousand and NT$528,635 thousand, respectively or about 3.45% and 3.50% of the Corporation's respective total assets, and the amounts of the equity in their net income were NT$90,988 thousand and NT$112,235 thousand or about 8.02% and 7.24% of the Corporation's income before income tax for the years ended December 31, 2010 and 2009, respectively. The financial statements of such investees were audited by other auditors whose reports have been furnished to us and, our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of the other auditors.

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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Systex Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of Systex Corporation and its subsidiaries as of and for the years ended December 31, 2010 and 2009, and have expressed a modified unqualified opinion thereon in our report (not presented herewith) dated March 1, 2011.

March 1, 2011

<u>*Notice to Readers*</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

SYSTEX CORPORATION

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)

	2010		2009	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Note 4)	$ 138,057	1	$ 338,207	2
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	1,920,899	12	2,072,589	14
Available-for-sale financial assets - current (Notes 2 and 6)	27,065	-	24,936	-
Notes receivable, net (Notes 2 and 7)	114,189	1	136,822	1
Accounts receivable, net (Notes 2 and 7)	1,320,421	9	1,193,720	8
Lease receivables, net (Notes 2 and 8)	15,646	-	16,367	-
Receivables from related parties (Note 22)	48,946	-	55,774	-
Other receivables	20,675	-	24,304	-
Inventories (Notes 2, 3 and 9)	904,138	6	830,551	6
Prepayments	201,743	1	89,451	1
Deferred income tax assets - current (Notes 2 and 18)	25,483	-	50,517	-
Pledged time deposits - current (Note 23)	275,562	2	147,844	1
Refundable deposits - current (Note 24)	60,364	-	84,981	1
Other current assets	12,323	-	15,959	-
Total current assets	5,085,511	32	5,082,022	34
LONG-TERM INVESTMENTS				
Financial assets carried at cost - noncurrent (Notes 2 and 10)	322,374	2	559,935	4
Investments accounted for by the equity method (Notes 2, 11 and 22)	7,882,275	50	7,011,317	46
Total long-term investments	8,204,649	52	7,571,252	50
PROPERTY AND EQUIPMENT (Notes 2 and 12)				
Cost				
Land	930,539	6	940,820	6
Buildings	1,209,066	8	1,234,976	8
Computer equipment	507,069	3	518,883	3
Transportation equipment	12,147	-	16,489	-
Leasehold improvements	87,093	-	106,151	1
Other equipment	90,020	1	95,550	1
Total cost	2,835,934	18	2,912,869	19
Less: Accumulated depreciation	860,315	5	863,521	6
Less: Accumulated impairment	11,912	-	11,912	-
	1,963,707	13	2,037,436	13
Prepayment for equipment	2,449	-	16,345	-
Net property and equipment	1,966,156	13	2,053,781	13
INTANGIBLE ASSETS (Note 2)				
Computer software	53,283	-	50,464	-
Goodwill	67,481	1	67,481	1
Total intangible assets	120,764	1	117,945	1
OTHER ASSETS				
Assets leased to others (Notes 2 and 13)	96,972	1	19,568	-
Idle assets, net (Notes 2 and 14)	14,962	-	45,017	-
Refundable deposits - noncurrent (Note 24)	68,850	1	53,315	-
Deferred charges, net (Note 2)	10,286	-	11,933	-
Long-term lease receivables, net (Notes 2 and 8)	6,244	-	12,696	-
Deferred income tax assets - noncurrent (Notes 2 and 18)	68,088	-	72,489	1
Pledged time deposits - noncurrent (Note 23)	37,770	-	56,716	1
Total other assets	303,172	2	271,734	2
TOTAL	$ 15,680,252	100	$ 15,096,734	100

	2010		2009	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes and accounts payable	$ 1,443,480	9	$ 1,286,884	9
Payables to related parties (Note 22)	9,395	-	14,274	-
Income tax payable (Notes 2 and 18)	67,217	-	14,611	-
Accrued expenses (Note 16)	397,587	3	433,167	3
Other payables	5,087	-	13,305	-
Receipts in advance	331,309	2	143,818	1
Other current liabilities	72,719	1	67,972	-
Total current liabilities	2,326,794	15	1,974,031	13
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 15)	59,942	-	65,754	1
Guarantee deposits received	6,109	-	6,140	-
Total other liabilities	66,051	-	71,894	1
Total liabilities	2,392,845	15	2,045,925	14
STOCKHOLDERS' EQUITY (Notes 2, 16 and 17)				
Capital stock - par value NT$10, authorized - 400,000 thousand shares; issued - 266,549 thousand shares in 2010 and 265,320 thousand shares in 2009	2,665,493	17	2,653,194	17
Advance receipts for common stock - 16 thousand shares in 2010 and 151 thousand shares in 2009	162	-	1,512	-
Total capital stock	2,665,655	17	2,654,706	17
Capital surplus				
Additional paid-in capital	8,597,169	55	8,570,993	57
Treasury stock transactions	821,744	5	772,738	5
Gain on sale of property and equipment	4,493	-	4,493	-
Donations	544	-	544	-
Long-term investments	56,015	1	6,216	-
Employee stock options	24,422	-	14,364	-
Total capital surplus	9,504,387	61	9,369,348	62
Retained earnings				
Legal reserve	423,513	2	283,073	2
Special reserve	-	-	233,051	2
Unappropriated earnings	2,007,058	13	1,404,394	9
Total retained earnings	2,430,571	15	1,920,518	13
Other equity				
Cumulative translation adjustments	(399,144)	(2)	(37,223)	-
Unrealized gain (loss) on financial instruments	(44,446)	-	13,076	-
Unrealized revaluation increment	56	-	56	-
Treasury stock - 24,520 thousand shares	(869,672)	(6)	(869,672)	(6)
Total other equity	(1,313,206)	(8)	(893,763)	(6)
Total stockholders' equity	13,287,407	85	13,050,809	86
TOTAL	$ 15,680,252	100	$ 15,096,734	100

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

(With Deloitte & Touche audit report dated March 1, 2011)

SYSTEX CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 22)				
Sales	$ 6,005,012	67	$ 5,628,498	66
Less: Sales returns and allowances	16,770	-	11,393	-
Net sales	5,988,242	67	5,617,105	66
Service income	2,882,346	33	2,789,721	33
Others	32,595	-	43,520	1
Total operating revenues	8,903,183	100	8,450,346	100
OPERATING COSTS (Notes 2, 3, 9, 19 and 22)				
Cost of goods sold	4,899,942	55	4,637,798	55
Service cost	1,432,197	16	1,323,590	16
Others	9,311	-	23,072	-
Total operating costs	6,341,450	71	5,984,460	71
GROSS PROFIT	2,561,733	29	2,465,886	29
OPERATING EXPENSES (Notes 16 and 19)				
Selling expenses	1,530,866	17	1,532,948	18
General and administrative expenses	228,198	3	310,076	4
Research and development expenses	281,328	3	262,432	3
Total operating expenses	2,040,392	23	2,105,456	25
OPERATING INCOME	521,341	6	360,430	4
NON-OPERATING INCOME AND GAINS				
Interest income	2,171	-	3,319	-
Investment income recognized under the equity method, net (Notes 2 and 11)	468,266	5	970,201	12
Dividend income	21,893	-	15,685	-
Gain on sale of investments, net (Note 2)	116,538	1	-	-
Exchange gain, net (Note 2)	-	-	12,011	-
Reversal of allowance for doubtful accounts	10,043	-	45,972	1
Valuation gain on financial assets, net (Notes 2 and 5)	-	-	146,887	2
Others (Note 22)	29,487	1	29,482	-
Total non-operating income and gains	648,398	7	1,223,557	15

(Continued)

SYSTEX CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	$ 11	-	$ 21	-
Loss on sale of investments, net (Note 2)	-	-	15,261	-
Exchange loss, net (Note 2)	14,206	-	-	-
Impairment loss on financial assets carried at cost (Notes 2 and 10)	11,081	-	8,402	-
Valuation loss on financial assets, net (Notes 2 and 5)	6,286	-	-	-
Others	4,014	-	9,848	-
Total non-operating expenses and losses	35,598	-	33,532	-
INCOME BEFORE INCOME TAX	1,134,141	13	1,550,455	19
INCOME TAX (Notes 2 and 18)	92,180	1	146,061	2
NET INCOME	$ 1,041,961	12	$ 1,404,394	17

	2010		2009	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 20)				
Basic	$ 4.69	$ 4.31	$ 6.44	$ 5.83
Diluted	$ 4.68	$ 4.30	$ 6.37	$ 5.77

Pro forma information assuming the Corporation's shares held by its subsidiaries were accounted for as an investment instead of treasury stock is as follows (Notes 2, 17 and 20):

	2010		2009	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
PRO FORMA EARNINGS PER SHARE				
Basic	$ 4.44	$ 4.09	$ 5.85	$ 5.30
Diluted	$ 4.43	$ 4.08	$ 5.79	$ 5.24

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

(With Deloitte & Touche audit report dated March 1, 2011) (Concluded)

SYSTEX CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock Issued and Outstanding		Advance Receipts for Common Stock	Capital Surplus (Notes 2 and l6)	Retained Earnings (Notes 2 and 16)				Other Equity				Total Stockholders' Equity
	Shares (Thousands)	Amount			Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments (Note 2)	Unrealized Gain (Loss) on Financial Instruments (Notes 2 and 16)	Unrealized Revaluation Increment	Treasury Stock (Notes 2 and 17)	
BALANCE, JANUARY 1, 2009	288,242	$ 2,882,419	$ -	$ 9,597,287	$ 283,073	$ -	$ 233,051	$ 516,124	$ 68,079	$ 13,643	$ 56	$ (1,302,652)	$ 11,774,956
Appropriations of earnings													
Special reserve	-	-	-	-	-	233,051	(233,051)	-	-	-	-	-	-
Issuance of stock from exercising employee stock options	667	6,665	1,512	15,814	-	-	-	-	-	-	-	-	23,991
Compensation recognized for employee stock options	-	-	-	3,713	-	-	-	-	-	-	-	-	3,713
Adjustments arising from changes in percentage of ownership in investees	-	-	-	6,216	-	-	-	-	-	-	-	-	6,216
Net income for the year ended December 31, 2009	-	-	-	-	-	-	1,404,394	1,404,394	-	-	-	-	1,404,394
Change in translation adjustments on investments accounted for by the equity method	-	-	-	-	-	-	-	-	(105,302)	-	-	-	(105,302)
Equity in changes in investees' unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	(12,940)	-	-	(12,940)
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	12,373	-	-	12,373
Acquisition of treasury stock - 3,029 thousand shares	-	-	-	-	-	-	-	-	-	-	-	(56,592)	(56,592)
Retirement of treasury stock - 23,589 thousand shares	(23,589)	(235,890)	-	(253,682)	-	-	-	-	-	-	-	489,572	-
BALANCE, DECEMBER 31, 2009	265,320	2,653,194	1,512	9,369,348	283,073	233,051	1,404,394	1,920,518	(37,223)	13,076	56	(869,672)	13,050,809
Appropriations of earnings (Note 16)													
Reversal of special reserve	-	-	-	-	-	(233,051)	233,051	-	-	-	-	-	-
Legal reserve	-	-	-	-	140,440	-	(140,440)	-	-	-	-	-	-
Cash dividends - NT$1.9986 per share	-	-	-	-	-	-	(531,908)	(531,908)	-	-	-	-	(531,908)
Issuance of stock from exercising employee stock options	1,229	12,299	(1,350)	24,233	-	-	-	-	-	-	-	-	35,182
Compensation recognized for employee stock options	-	-	-	12,001	-	-	-	-	-	-	-	-	12,001
Adjustments arising from changes in percentage of ownership in investees	-	-	-	49,799	-	-	-	-	-	-	-	-	49,799
Change in translation adjustments on investments accounted for by the equity method	-	-	-	-	-	-	-	-	(361,921)	-	-	-	(361,921)
Net income for the year ended December 31, 2010	-	-	-	-	-	-	1,041,961	1,041,961	-	-	-	-	1,041,961
Equity in changes in investees' unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	(59,652)	-	-	(59,652)
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	2,130	-	-	2,130
Cash dividends received by subsidiaries from the Corporation	-	-	-	49,006	-	-	-	-	-	-	-	-	49,006
BALANCE, DECEMBER 31, 2010	266,549	$ 2,665,493	$ 162	$ 9,504,387	$ 423,513	$ -	$ 2,007,058	$ 2,430,571	$ (399,144)	$ (44,446)	$ 56	$ (869,672)	$ 13,287,407

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

(With Deloitte & Touche audit report dated March 1, 2011)

SYSTEX CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,041,961	$ 1,404,394
Depreciation and amortization	125,770	142,292
Reversal of allowance for doubtful accounts	(10,043)	(45,972)
Compensation cost of employee stock options	12,001	3,713
Reversal of loss on inventories	(1,276)	(7,846)
Valuation loss (gain) on financial assets, net	6,286	(146,887)
Loss on sale of investments classified as held for sale	-	607
Gain on sale of available-for-sale-financial assets, net	(1,440)	-
Gain on sale of financial assets carried at cost	(26,373)	-
Investment income recognized under the equity method, net	(468,266)	(970,201)
Gain on liquidation of investee	-	(3,703)
Change in cumulative translation adjustments due to liquidation of investee	-	(2,702)
Impairment loss on financial assets carried at cost	11,081	8,402
Loss (gain) on sale of property and equipment, assets leased to others, idle assets, deferred charges and computer software, net	(12,684)	1,214
Deferred income tax	29,435	135,984
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	145,404	(746,256)
Accounts receivable	(116,658)	330,659
Notes receivable	22,634	6,040
Lease receivables (current and noncurrent)	7,173	102
Receivables from related parties	6,828	38,694
Other receivables	3,629	142,783
Inventories	(72,311)	125,105
Prepayments	(112,292)	(1,223)
Other current assets	3,636	(8,337)
Notes and accounts payable	156,596	(363,761)
Payables to related parties	(4,879)	(2,299)
Income tax payable	52,606	1,823
Accrued expenses	(35,580)	(2,903)
Other payables	(8,218)	(110,050)
Receipts in advance	187,491	(39,751)
Other current liabilities	4,747	(84)
Accrued pension cost	(5,812)	(1,060)
Net cash provided by (used in) operating activities	941,446	(111,223)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments classified as held for sale	-	18,455
Proceeds from sale of available-for-sale financial assets	1,440	-
Proceeds from sale of financial assets carried at cost	252,853	-
Acquisition of financial assets carried at cost	-	(71,955)
Acquisition of investments accounted for by the equity method	(773,409)	-

(Continued)

SYSTEX CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
Proceeds from return of capital by investees or liquidation of investees	$ 47,949	$ 9,690
Acquisition of property and equipment and assets leased to others	(123,135)	(115,054)
Proceeds from sale of property and equipment, assets leased to others, idle assets, deferred charges and computer software	78,959	13,612
Acquisition of computer software	(29,063)	(7,406)
Increase in deferred charges	(743)	(400)
Increase in pledged time deposits	(108,772)	(19,699)
Decrease in refundable deposits	9,082	11,702
Decrease in loan to related party	-	10,000
Net cash used in investing activities	(644,839)	(151,055)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits received	(31)	(1,373)
Proceeds from exercise of employee stock options	35,182	23,991
Acquisition of treasury stock	-	(56,592)
Cash dividends	(531,908)	-
Net cash used in financing activities	(496,757)	(33,974)
NET DECREASE IN CASH	(200,150)	(296,252)
CASH, BEGINNING OF YEAR	338,207	634,459
CASH, END OF YEAR	$ 138,057	$ 338,207
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 11	$ 21
Income tax paid	$ 10,140	$ 8,255
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property and equipment and assets leased to others	$ 123,135	$ 35,260
Decrease in payable for equipment purchased (included in accrued expenses)	-	79,794
Cash paid for acquisition of property and equipment and assets leased to others	$ 123,135	$ 115,054

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SYSTEX CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

The Corporation acquired 98.9% equity interest of Taifon Computer Co., Ltd. in 2010. The fair value of the acquired assets and liabilities are summarized as follows:

Cash	$ 22,803
Notes and accounts receivable, net	152,757
Inventories, net	20,168
Other current assets	87,034
Investment accounted for by the equity method	53,810
Property and equipment, net	190,193
Other assets	14,799
Short-term loans	(80,522)
Accounts payable	(95,478)
Income tax payable	(1,352)
Receipts in advance	(8,588)
Current portion of long-term bank loans	(7,377)
Accrued expenses and other current liabilities	(25,353)
Long-term bank loans	(60,860)
Other liabilities (including accrued pension cost)	(6,515)
	255,519
Percentage of ownership acquired	98.9%
	252,708
Excess of the fair value of the net identifiable assets acquired over the acquisition cost	(54,564)
Cash paid by the Corporation for the acquisition of the equity interest in Taifon Computer Co., Ltd.	$ 198,144

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

(With Deloitte & Touche audit report dated March 1, 2011) (Concluded)

1. ORGANIZATION AND OPERATIONS

Systex Corporation (the "Corporation") was incorporated on January 7, 1997. The Corporation provides advanced software and information-based solutions, sells and leases computer hardware and software, and renders related services.

The shares of the Corporation had been traded on the Taiwan GreTai Securities Market since January 6, 2003. On December 30, 2010, the Corporation has changed the listing and trading of its shares to the Taiwan Stock Exchange.

As of December 31, 2010 and 2009, the Corporation had 1,718 and 1,652 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretation between the two versions, the Chinese version of the financial statements shall prevail. However, the financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for its oversight purposes.

The financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China. Under these guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts; provision for loss on inventories; depreciation of property and equipment, assets leased to others and idle assets; amortization of intangible assets and deferred charges; impairment loss; pension cost; income tax; loss on breach of contracts; loss on pending or threatened litigations; bonus to employees, remuneration to directors and compensation cost of employee stock options, etc. Actual results may differ from these estimates.

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments at fair value through profit or loss (FVTPL) are financial assets held for trading, and on initial recognition, are measured at fair value, including the acquisition costs. Subsequent changes in fair value are recognized as current gain or loss. Cash dividends received subsequently (including those received in the year of investment) are accounted for as investment income for the year. On derecognition of a financial asset, the difference between its carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized or derecognized on a trade date basis.

On the balance sheet date, the fair values of listed securities are measured at their closing prices and those of open-ended mutual funds, at their net asset values.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized or derecognized on a trade date basis.

On the balance sheet date, the fair values of listed securities are measured at their closing prices.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss on available-for-sale financial assets is recognized directly in equity.

Revenue Recognition, Accounts Receivable, and Allowance for Doubtful Accounts

Revenues from sales of computer hardware and software are recognized when the items, and the risks and rewards associated with the items are transferred to the customers. Revenues from integrated hardware and software solutions are generally recognized incrementally after delivery, installation and testing or on customers' acceptance, depending on contract terms.

Service income is generally recognized when service is rendered or is recognized over the term of the service contract under the straight-line method or the percentage-of-completion method. Contract profit for the current period is the difference between the cumulative profit at the end of the current period and the cumulative profit recognized in the prior periods. However, if the cumulative profit recognized in prior periods is greater than the cumulative profit calculated using the percentage of completion method at the end of the current period, the excess should be recognized as a loss in the current period and recorded in the operating costs.

Other operating revenues mainly consist of rental revenue on operating leases of computer equipment and are recognized over the lease terms.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Corporation and the customers for goods sold or services rendered in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, hence fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of prior years' bad debt amounts, economic factors, and the aging and collectability of receivables.

Leases

The fair value of computers leased under capital leases and implicit interest thereon are recorded as lease receivables. This interest is deferred and recognized as other operating revenue over the term of the lease.

Assets leased to others under operating leases (assets leased to others) are stated at cost less accumulated depreciation and accumulated impairment. The depreciation is computed using averaged years of usage: building over 60 years and computers leased out over 3 years. Rental revenue is recognized currently. Upon sale or disposal of these properties, the related cost, accumulated depreciation and accumulated impairment are removed from the accounts, and any gain or loss is credited or charged to income. At year-end, any gain generated before 2000 less applicable income tax is transferred to capital surplus.

Inventories

Inventories are stated at the lower of cost (monthly weighted average) or net realizable value. Net realizable value is the estimated selling price of inventories less all estimated costs necessary to make the sale. Write-down of inventories and any reversal of write-down are recorded as cost of goods sold for the period.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original costs. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

When the stocks are sold, the costs are computed under the moving average method.

Investments Accounted for by the Equity Method

Investments in which the Corporation holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method. These investments are initially stated at cost and subsequently adjusted for the Corporation's proportionate share in the net income or net loss and cumulative translation adjustment. Cash dividends received are accounted for as a reduction of the carrying value of the investments. When the investee recognizes unrealized gains or losses on financial instruments, the Corporation also records its equity in the investee's unrealized gains or losses as an adjustment to stockholders' equity.

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The fair value of the net identifiable assets acquired in excess of the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefits) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

When the Corporation subscribes for its investee’s newly issued shares at a percentage different from its percentage of ownership in the investee, or the investee’s appropriation of stock bonus to employees, or the investee’s acquisition of its shares as treasury stock, the Corporation records the change in its equity in the investee’s net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings. Upon the sale of investments accounted for by the equity method, any capital surplus or other equity adjustment is charged to current income proportionately.

When the Corporation and its investee maintain investment interest in each other, treasury stock method is used to recognize gains and losses.

Parent stocks held by a subsidiary are considered as treasury stock. The cash dividends released by the Corporation to its subsidiaries are accounted for by eliminating its investment income and adjusting the capital surplus arising from treasury stock transactions.

Any unrealized profits and losses resulting from transactions between investee companies accounted for by the equity method are eliminated to the extent of the Corporation’s interest in the investee company which generates such profits and losses, if both of the investee companies are under common control by the Corporation; otherwise, the unrealized profits and losses are eliminated to the extent of the Corporation’s multiplied interest in both of the investee companies. Profits or losses from downstream transactions with an equity-method investee are eliminated in proportion to the Corporation’s percentage of ownership in the investee; however, if the Corporation has control over the investee, all the profits are eliminated. In addition, profits and losses from upstream transactions with an equity-method investee are eliminated in proportion to the Corporation’s percentage of ownership in the investee.

Stock dividends received are not recorded as investment income. They are recognized only as increases in the number of shares held.

Property and Equipment and Idle Assets

Property and equipment and idle assets are stated at cost less accumulated depreciation and accumulated impairment. Major additions, replacements and improvements are capitalized, while maintenance and repairs are expensed currently.

Depreciation is provided on a straight-line basis over the estimated useful lives as follows: buildings, 19 to 60 years; computer equipment, 3 to 7 years; transportation equipment, 5 to 6 years; leasehold improvements and other equipment, 2 to 5 years. Property and equipment still in use beyond their original estimated service lives are further depreciated over their newly estimated service lives.

Upon sale or disposal of property and equipment and idle assets, the related cost and accumulated depreciation and accumulated impairment are removed from the accounts, and any gain or loss is credited or charged to income. At year-end, any gain generated before 2000 less applicable income tax is transferred to capital surplus.

Computer Software

Computer software is initially recorded at cost and is amortized using the straight-line basis over 2 to 5 years.

Goodwill

Goodwill recognized by the Corporation when it acquired equity in the fair value of subsidiaries' net assets is tested for impairment annually. For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU(s)") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is not allowed.

Deferred Charges

Deferred charges, mainly the costs of telephone wire installation, are amortized on the straight-line basis over 3 to 6 years.

Impairment of Assets

If the recoverable amount of an asset (mainly property and equipment, intangible assets, idle assets, assets leased to others, deferred charges, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings.

For long-term equity investments in which the Corporation has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

Employee Stock Options

Employee stock options granted on or after January 1, 2008 are accounted for under the Statement of Financial Accounting Standards (SFAS) No. 39, "Accounting for Share-based Payment." Under the Statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Corporation adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

Pension

Under the defined benefit pension plan, pension cost is recognized on the basis of actuarial calculation. Unrecognized net transition obligation, unrecognized past service cost and the unrecognized net actuarial gain or loss are amortized using the straight-line method over the average remaining service years of employees.

Under the defined contribution plan, the required monthly contributions to employees' individual pension accounts are recognized as pension cost.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in stockholders' equity.

When the Corporation retires treasury stock, the treasury stock account is reduced, and the capital surplus - additional paid-in capital and the capital account are reversed on a pro rata basis. The carrying value of treasury stock in excess of the sum of its par value and premium on stock is first offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. If this sum exceeds carrying value, the excess is credited to capital surplus from the treasury stock transactions.

The Corporation's stock held by its subsidiaries is treated as treasury stock and reclassified from long-term stock investment into treasury stock, and is accounted for on the basis of the carrying value (available-for-sale financial assets) multiplied by the Corporation's proportionate share as of the date when the Corporation acquired controlling interest in the subsidiary.

Income Tax

The Corporation applies inter-year allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred income tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Tax credits for research and development expenditures, personnel training expenditures, purchases of machinery, equipment and technology and investment in private participation in infrastructure projects are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

An additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

Foreign-currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Corporation. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

3. ACCOUNTING CHANGES

Accounting for Inventories

On January 1, 2009, the Corporation adopted the newly revised SFAS No. 10, "Accounting for Inventories". Accordingly, inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate, and write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption had no material impact on the Corporation's financial statements.

4. CASH

	December 31	
	2010	**2009**
Cash on hand	$ 355	$ 355
Checking accounts and demand deposits	135,671	175,878
Time deposits: Interest 0.69% in 2010; 0.18%-0.355% in 2009	2,031	161,974
	$ 138,057	$ 338,207

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	December 31	
	2010	**2009**
Financial assets held for trading		
Mutual funds	$ 1,920,899	$ 1,942,424
Domestic listed shares	-	130,165
	$ 1,920,899	$ 2,072,589

Net valuation gain (loss) on financial assets held for trading was $(6,286) thousand in 2010 and $146,887 thousand in 2009, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2010	2009
Domestic listed shares	$ 27,065	$ 24,936

7. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2010	2009
Notes receivable	$ 114,361	$ 136,994
Less: Allowance for doubtful accounts	172	172
	$ 114,189	$ 136,822
Accounts receivable	$ 1,437,694	$ 1,346,386
Less: Allowance for doubtful accounts	117,273	152,666
	$ 1,320,421	$ 1,193,720

8. LEASE RECEIVABLES, NET

	Current	Long-term	Total
December 31, 2010			
Lease receivables	$ 16,366	$ 6,500	$ 22,866
Less: Unearned interest income	720	256	976
	$ 15,646	$ 6,244	$ 21,890
December 31, 2009			
Lease receivables	$ 17,569	$ 13,051	$ 30,620
Less: Unearned interest income	1,202	355	1,557
	$ 16,367	$ 12,696	$ 29,063

9. INVENTORIES

	December 31	
	2010	2009
Merchandise	$ 879,756	$ 801,992
Maintenance parts	24,382	28,559
	$ 904,138	$ 830,551

As of December 31, 2010 and 2009, the allowance for inventory devaluation was $79,038 thousand and $96,900 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2010 and 2009 was $4,899,942 thousand and $4,637,798 thousand, respectively, which included $1,276 thousand and $7,846 thousand gain on reversal of write-downs of inventories.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2010	**2009**
Unquoted common stock	$ 322,374	$ 559,935

The above equity investments, which had no quoted prices in an active market and for which fair values could not be reliably measured, were carried at cost.

In 2007, the Corporation had purchased newly issued common stock of Far Eastern Electronic Toll Collection Co., Ltd. (FETC) for $119,700 thousand. The related investment cost is being amortized over the contracted operating periods with the government based on Interpretation No. 1998-150 issued by the Accounting Research and Development Foundation. The Corporation charged amortization expenses of $6,529 thousand both in 2010 and 2009, which were included in the impairment loss of the financial assets carried at cost.

In addition to the above losses, the Corporation determined other than temporary decline of other financial assets carried at cost and calculated impairment losses on these assets. The Corporation recognized additional impairment losses of $4,552 thousand and $1,873 thousand in 2010 and 2009, respectively.

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2010		2009	
	Carrying Amount	**% of Owner-ship**	**Carrying Amount**	**% of Owner-ship**
Unlisted common stocks				
Ching Pu Investment Corporation (Notes 2 and 17)	$ 2,882,328	100.0	$ 2,670,118	100.0
Systex Capital Group Inc. (SCGI)	2,648,573	100.0	2,594,334	100.0
Kimo.com (BVI) Corporation	1,704,264	100.0	1,407,014	100.0
Taifon Computer Co., Ltd. (Taifon)	206,750	98.9	-	-
Hanmore Investment Corporation (Notes 2 and 17)	199,564	48.9	162,313	48.9
Concord System Management Corporation (CSMC)	175,635	40.3	79,105	17.5
Enrichment I Venture Capital Corporation (EIVCC)	62,013	37.7	95,541	37.7
Systex Infopro Co., Ltd. (Systex Infopro)	3,148	20.0	2,892	20.0
	$ 7,882,275		$ 7,011,317	

The Corporation exercises significant influence on CSMC in 2009 in spite of holding equity interests of less than 20% in it. Therefore, the investment is accounted for using the equity method.

CSMC undertook a capital reduction in August 2010, and returned $13,269 thousand of cash to the Corporation.

EIVCC undertook a capital reduction in April 2010, and returned $34,680 thousand of cash to the Corporation.

Systime went into liquidation in October 2009. Upon completion of the liquidation process in December 2009, the Corporation received $1,500 thousand of cash.

Wit Investment Partners Ltd. (WIPL) went into liquidation in March 2009. Upon completion of the liquidation process in July 2009, the Corporation received $1,946 thousand of cash.

The Corporation acquired 98.9% of Taifon's stock for $198,144 thousand in 2010; of the amount, $69,607 thousand was paid to Taiwan Electronic Data Processing Corporation (a subsidiary) for 34.8% equity interest (Note 22).

The Corporation acquired 22.8% of CSMC's stock for $104,841 thousand in 2010; of the amount, $13,528 thousand was paid to related parties for 2.9% equity interest (Note 22).

Investment income (loss) recognized under the equity method was as follows:

	2010	2009
Systex Capital Group Inc.	$ 300,522	$ 513,192
Ching Pu Investment Corporation	232,459	422,884
Hanmore Investment Corporation	16,375	10,873
Taifon Computer Co., Ltd.	8,606	-
Enrichment I Venture Capital Corporation	4,498	33,294
Concord System Management Corporation	4,875	5,474
Systex Infopro Co., Ltd.	230	(1,701)
Kimo.com (BVI) Corporation	(99,299)	(14,253)
Wit Investment Partners Ltd.	-	(141)
Systime Technology Corp.	-	579
	$ 468,266	$ 970,201

The financial statements based on which the carrying values of equity-method investments and the related equity in net income or net loss were calculated had all been audited except for those of Systex Infopro for 2010 and of Systex Infopro and WIPL for 2009. The Corporation believes that any adjustment that might have raise had the financial statements of such investees been audited would not be material to the Corporation's financial statements taken as a whole.

The Corporation's consolidated financial statements included the accounts of all its subsidiaries.

12. PROPERTY AND EQUIPMENT

Accumulated depreciation consisted of:

	December 31	
	2010	2009
Buildings	$ 324,207	$ 310,540
Computer equipment	395,965	386,623
Transportation equipment	3,952	11,734
Leasehold improvements	64,897	81,220
Other equipment	71,294	73,404
	$ 860,315	$ 863,521

13. ASSETS LEASED TO OTHERS

	December 31	
	2010	2009
Cost		
Land	$ 5,109	$ 5,109
Buildings	1,915	1,915
Computer equipment	128,145	60,419
	135,169	67,443
Accumulated depreciation		
Buildings	533	519
Computer equipment	34,634	44,326
	35,167	44,845
Accumulated impairment loss (land and buildings)	3,030	3,030
	$ 96,972	$ 19,568

14. IDLE ASSETS, NET

Idle assets are network operation centers and buildings that are currently not in use. Their corresponding cost, accumulated depreciation and accumulated impairment loss were as follows:

	December 31	
	2010	2009
Land	$ 15,657	$ 36,912
Buildings	22,258	31,413
	37,915	68,325
Accumulated depreciation - building	9,445	9,800
Accumulated impairment loss	13,508	13,508
	$ 14,962	$ 45,017

15. PENSION PLAN

Defined Contribution Plan

Based on the defined contribution plan under the Labor Pension Act, the rate of the required monthly contributions to the employees' individual pension accounts is at 6% of salaries or wages. The Corporation recognized pension costs of $64,119 thousand and $65,346 thousand in 2010 and 2009, respectively.

Defined Benefit Plan

Based on the defined benefit plan under the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributed amounts equal to 2%-3.96% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee in 2010 and 2009. The pension fund is deposited in the Bank of Taiwan in the committee's name.

Information about the defined benefit plan was as follows:

a. Changes in the pension funds:

	2010	2009
Balance, beginning of year	$ 183,396	$ 173,044
Contributions	13,220	14,837
Payments	-	(5,645)
Interest income	2,998	1,160
Balance, end of year	$ 199,614	$ 183,396

The amounts of pension funds shown above included the amounts from the companies merged into the Corporation as well as the pension fund of $10,255 thousand and $10,089 thousand as of December 31, 2010 and 2009 from ULSTEK Co., Ltd. (ULSTEK). Pension funds of ULSTEK were pending approval of the relevant authority-in-charge to combine with the Corporation's pension account.

b. Changes in accrued pension cost:

	2010	2009
Balance, beginning of the year	$ 65,754	$ 66,814
Pension cost for the year	7,408	13,777
Contributions	(13,220)	(14,837)
Balance, end of the year	$ 59,942	$ 65,754

c. Components of net periodic pension cost:

	2010		2009	
Service cost		$ 2,605		$ 4,312
Interest cost		6,463		8,468
Actual return on plan assets	$ 2,998		$ 1,160	
Loss (gain) on plan assets	(157)		2,892	
Projected return on plan assets		(2,841)		(4,052)
Amortization		1,181		5,049
Net periodic pension cost		$ 7,408		$ 13,777

d. Reconciliation of funded status of the plan and accrued pension cost:

	December 31	
	2010	2009
Benefit obligation		
Vested benefit obligation	$ 3,337	$ 1,072
Non-vested benefit obligation	254,141	239,831
Accumulated benefit obligation	257,478	240,903
Additional benefits based on future salaries	47,063	46,467
Projected benefit obligation	304,541	287,370
Fair value of plan assets	(199,614)	(183,396)
Funded status	104,927	103,974
Unrecognized net transition obligation	(6,590)	(7,549)
Unrecognized past service cost	16,882	17,754
Unrecognized net actuarial loss	(55,277)	(48,425)
Accrued pension cost	$ 59,942	$ 65,754

e. Vested benefit

	2010	2009
Vested benefit	$ 4,467	$ 1,385

f. Actuarial assumptions

	December 31	
	2010	2009
Discount rate used in determining present value	2.25%	2.25%
Future salary increase rate	1.00%	1.00%
Expected rate of return on plan assets	2.00%	1.50%

16. STOCKHOLDERS' EQUITY

Stock-based Compensation Plan

For the Corporation to retain its quality professionals for its business and operations and deepen the employees' sense of belonging, the Corporation adopted stock option plans (the "Plans") - which the Board of Directors approved on March 19, 2010, March 19, 2007 and May 3, 2005 - to grant employees 10,000 units, 9,500 units and 3,000 units of stock options, respectively. Each unit represented 1,000 common shares of the Corporation. The Securities and Futures Bureau under the Financial Supervisory Commission, Executive Yuan of ROC approved the Plans on April 12, 2010, June 14, 2007 and June 22, 2005, respectively.

The Corporation issued 3,200 units, 425 units, 4,440 units, 4,635 units, 1,500 units and 1,500 units on May 10, 2010, June 12, 2008, January 16, 2008, September 19, 2007, May 16, 2006 and August 30, 2005, respectively. The option rights were granted to qualified employees of the Corporation and its subsidiaries. The option rights are valid for 5 years and exercisable at certain percentages after the second anniversary of the grant date. The exercise price of the stock option right is equal to the closing price of the Corporation's common shares listed on the Taiwan Stock Exchange on the date of the grant. If the number of the Corporation's common shares changes after the granting of the stock option, the exercise price will be revised in accordance with the terms of the Plans.

The outstanding employee stock options in 2010 and 2009 were as follows:

Employee Stock Option	2010 Number of Outstanding Options	2010 Weighted-average Exercise Price (NT$)	2009 Number of Outstanding Options	2009 Weighted-average Exercise Price (NT$)
Beginning outstanding balance	5,875.6	$ 37.66	9,929.7	$ 37.01
Options granted	3,200.0	$ 40.70	-	$ -
Options forfeited	(323.1)	$ 40.58	(3,236.4)	$ 37.77
Decrease due to capital reduction	(1,094.9)	$ 30.90	(817.7)	$ 29.34
Options exercised	(0.2)	$ 27.80	-	$ -
Ending outstanding balance	7,657.4	$ 38.24	5,875.6	$ 37.66
Ending exercisable balance	3,530.4		2,414.0	
Weighted average fair value of the options granted (NT$)	$ 13.01		$ -	

As of December 31, 2010, outstanding employee stock options were as follows:

Range of Exercise Price (NT$)	Number of Outstanding Options	Weighted-average Remaining Life (Years)	Weighted-average Exercise Price of Outstanding Options (NT$)	Number of Exercisable Options	Weighted-average Exercise Price (NT$)
$ 27.00	261.0	0.37	$ 27.00	261.0	$ 27.00
$ 43.20	2,124.0	1.72	$ 43.20	2,124.0	$ 43.20
$ 31.10	1,846.5	2.04	$ 31.10	1,040.1	$ 31.10
$ 28.00	225.9	2.45	$ 28.00	105.3	$ 28.00
$ 40.70	3,200.0	4.36	$ 40.70	-	$ -

Options granted in 2010 and 2008 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	Issued on May 10, 2010	Issued on June 12, 2008	Issued on January 16, 2008
Grant-date share price (NT$)	$42.70	$28.00	$30.80
Exercise price (NT$)	$40.70	$28.00	$31.10
Expected volatility	39.20%-39.45%	32.80%-32.96%	32.29%-32.51%
Expected life (years)	3.5-4 years	2.25-3.25 years	2.25-3.25 years
Expected dividend yield	-	-	-
Risk-free interest rate	0.69%-0.87%	2.59%	2.46%

The compensation cost of employee stock option was $12,001 thousand and $3,713 thousand in 2010 and 2009, respectively.

Intrinsic value-based method was adopted for options granted before January 1, 2008, and there was no compensation cost recognized in 2010 and 2009 for these options. Had the Corporation applied the fair value-based method to these options, the Corporation's assumptions and pro forma results in 2010 and 2009 would have been as follows:

		Issued on September 19, 2007	Issued on May 16, 2006
Pricing model:	Black-Scholes model		
Assumptions:	Risk-free interest rate	2.45%	2.15%
	Expected life	5 years	5 years
	Expected volatility	38.13%	30.00%
	Expected dividend yield	-	-

		2010	2009
Net income of the Corporation:	Net income as reported	$ 1,041,961	$ 1,404,394
	Pro forma net income	1,040,059	1,402,627
Earnings per share (EPS) of the Corporation:	Basic EPS as reported (NT$)	4.31	5.83
	Pro forma basic EPS (NT$)	4.30	5.83

Capital Surplus

Under relevant regulations, capital surplus from equity-method investments cannot be used for any purpose. Capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares and treasury stock transaction) and donation received can only be used to offset deficit or transferred to capital, and the amount transferred per year should not exceed a certain percentage of the capital. Other capital surplus can only be used to offset deficit.

Appropriation of Earnings and Dividend Policy

The Corporation's Articles of Incorporation provide that the annual net income (less any deficit) after allocations of 10% as legal reserve and of special reserve should be appropriated as follows:

a. No less than 0.1% as bonus to employees;
b. No less than 2% as remuneration to directors;
c. The remainder, to be distributed to the stockholders or retained by the Corporation.

The employees who qualify for the distribution of earnings as stock bonus include employees of the Corporation's affiliates who meet certain criteria.

Following its Articles of Incorporation and considering the overall environment, growth trends in the industry, and the Corporation's long-term financial planning and ongoing goal to have steady progress, the Corporation applies its residual dividends policy as follows:

a. Determine the appropriate capital budget.

b. Determine the funds needed for the capital budget.

c. Determine the amount to be funded by unappropriated earnings (the remaining may be funded through capital increase by cash or through issuance of bonds).

d. The remaining retained earnings, less an appropriate portion for the operational needs, may be distributed to stockholders.

The Corporation's dividends may be distributed in cash or stocks. The distribution of profits shall be made preferably by way of cash dividends. The distribution could also be made by way of stock dividends, but not to exceed 50% of the total distributed cash and stock dividends. In addition, dividend policy depends on criteria such as the Corporation's current and future investment environment, cash requirements, domestic and international competition, capital budget etc. Further, the Corporation evaluates stockholders' interests and balances dividends and its long-term financial goals. Annually, the board of directors prepares a proposal on earnings appropriation for approval at the stockholders' meeting.

Under the local regulations, when the Corporation distributes its earnings, it needs to provide a special reserve equal to the sum of all debit balances shown in the stockholders' equity, except for treasury stock. If the Corporation's stock are held by its subsidiaries at the end of the year and the market value of the shares held are lower than their carrying value, the Corporation should provide a special reserve equal to the difference between the book value and market value multiplied by its percentages of ownership of the subsidiaries. The balance of the special reserve is adjusted to reflect changes in the debit balances of the stockholders' equity accounts, and the portion that is reversed should be available for distribution as dividends.

Under the Company Law, legal reserve should be appropriated until the reserve equals to the Corporation's capital. This reserve may be used to offset a deficit, or, when the reserve has reached 50% of the capital, up to 50% thereof may be transferred to capital.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations and reversal of appropriations of earnings for 2009 and 2008 had been approved in the stockholders' meetings held on June 18, 2010 and June 19, 2009, respectively. The appropriations and reversal of appropriations, and dividends per share were as follows:

	Appropriation (Reversal of Appropriation) of Earnings		**Dividends Per Share (NT$)**	
	For Year 2009	**For Year 2008**	**For Year 2009**	**For Year 2008**
Special reserve	$ (233,051)	$ 233,051	$ -	$ -
Legal reserve	140,440	-	-	-
Cash dividends	531,908	-	1.9986	-
	$ 439,297	$ 233,051	$ 1.9986	$ -

Bonus to employees and remuneration to directors for 2009 were also resolved in the stockholders' meeting held on June 18, 2010 in the same amount as recognized in the financial statements for the year ended December 31, 2009.

As of March 1, 2011, the board of directors has not resolved the appropriations of earnings for 2010. Information about the appropriations of earnings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

Under the Articles of Incorporation, the bonus to employees and the remuneration to directors were 0.1% and 2%, respectively (10% and 2%, respectively, for 2009), of net income (net of legal reserve and special reserve). For the years ended December 31, 2010 and 2009, the bonus to employees and the remuneration to directors were as follows:

	2010	2009
Remuneration to directors	$ 11,804	$ 25,279
Bonus to employees	590	126,395
	$ 12,394	$ 151,674

Material differences between the estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a stock bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the stock bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

Unrealized Gain or Loss on Financial Instruments

For the years ended December 31, 2010 and 2009, movements of unrealized gain or loss on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity Method Investments	Total
Year ended December 31, 2010			
Balance, beginning of the year	$ 12,373	$ 703	$ 13,076
Recognized in stockholders' equity	3,570	(59,652)	(56,082)
Transferred to profit or loss	(1,440)	-	(1,440)
Balance, end of the year	$ 14,503	$ (58,949)	$ (44,446)
Year ended December 31, 2009			
Balance, beginning of the year	$ -	$ 13,643	$ 13,643
Recognized in stockholders' equity	12,373	(12,940)	(567)
Balance, end of the year	$ 12,373	$ 703	$ 13,076

17. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
2010				
Reclassification of parent company stock held by subsidiaries from equity-method investments into treasury stock	24,520	-	-	24,520
2009				
To maintain the Corporation's credibility and stockholders' interest	20,560	3,029	23,589	-
Reclassification of parent company stock held by subsidiaries from equity-method investments into treasury stock	24,520	-	-	24,520
	45,080	3,029	23,589	24,520

The Corporation's shares held by subsidiaries as of December 31, 2010 and 2009 were as follows:

Subsidiary	Shares (In Thousands)	Investment Cost	Market Value
December 31, 2010			
Hanmore Investment Corporation (Hanmore)	23,586	$ 1,155,848	$ 1,106,168
Ching Pu Investment Corporation	12,982	$ 488,011	$ 608,831
December 31, 2009			
Hanmore Investment Corporation (Hanmore)	23,586	$ 1,155,848	$ 1,200,511
Ching Pu Investment Corporation	12,982	$ 488,011	$ 660,757

The carrying value of Hanmore's investment in the Corporation's shares, represents the investment cost of $1,155,848 thousand net of the market value decline of $375,703 thousand. The Corporation reclassified its 48.9% ownership of Hanmore, with a carrying amount of $381,661 thousand (11,538 thousand shares), into treasury stock in 2010 and 2009.

The Corporation's shares held by its subsidiaries are recorded as treasury stocks, with the subsidiaries having the same rights as other common stockholders on these stocks, except that the subsidiaries which are owned by the parent company for over 50% will not have the right to participate in any share issuance for cash or to vote.

The Corporation executed the following share buyback plans in accordance with Article 28-2 of Securities and Exchange Act. The Corporation acquired 9,000 thousand shares of its common stock (net of 1,000 thousand shares decreased due to capital reduction) between August 25, 2008 and October 24, 2008, and 11,560 thousand shares between October 22, 2008 and December 21, 2008, and canceled them on January 1, 2009. The share acquisition costs were $222,784 thousand (net of $10,000 thousand decreased due to capital reduction) and $210,196 thousand, respectively, totaling $432,980 thousand, of which $205,600 thousand was charged to capital stock; $664,623 thousand was charged to additional paid-in capital; and $437,243 thousand was credited to treasury stock capital surplus. The Corporation acquired 3,029 thousand shares of its common stock between February 9, 2009 and April 8, 2009, and canceled them on August 28, 2009. The share acquisition cost was $56,592 thousand, of which $30,290 thousand was charged to capital stock; $97,916 thousand was charged to additional paid-in capital; and $71,614 thousand was credited to treasury stock capital surplus.

18. INCOME TAX

a. Income tax expense was as follows:

	2010	2009
Currently payable	$ 64,524	$ 19,629
Additional income tax on unappropriated earnings (10%)	73,205	-
Investment tax credits generated during the year	-	(67,290)
Deferred income tax		
Temporary differences and investment tax credits	(48,417)	181,071
Effect of tax law changes on deferred income tax	32,866	43,280
Effect of tax law changes on valuation allowance	(23,879)	(30,892)
Prior years' tax adjustment	(6,119)	263
Income tax expense	$ 92,180	$ 146,061

Income tax payable as of December 31, 2010 and 2009 was net of prepaid income taxes of $1,648 thousand and $2,118 thousand, respectively.

During the years ended December 31, 2010 and 2009, the Legislative Yuan passed the following amendments to tax laws:

1) In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010.

2) Under Article 10 of the Statute for Industrial Innovation passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

3) In May 2010, the Legislative Yuan passed another amendment of Article 5 of the Income Tax Law, which reduced further a profit-seeking enterprise's income tax rate from 20% to 17%, also effective January 1, 2010.

b. Reconciliation of tax on accounting pretax income at statutory rate (2010: 17%; 2009: 25%) to income tax currently payable was as follows:

	2010	2009
Tax on pretax income at statutory rate	$ 192,804	$ 387,604
Add (deduct) tax effects of:		
Equity in the net income of domestic and foreign investees	(79,605)	(242,550)
Loss (income) on sale of securities	(19,812)	3,815
Reversal of unrealized cost of sales	(12,403)	(6,221)
Realized sales allowance	(278)	(24,856)
Reversal of allowance for doubtful accounts	(6,186)	(5,088)
Loss from liquidation and capital reduction of investees	-	(49,388)
Unrealized net loss (gain) on valuation of financial instruments	1,069	(36,722)
Others	(8,759)	(6,965)
Loss carryforward used	(2,306)	-
Currently payable	$ 64,524	$ 19,629

c. Deferred income tax assets (liabilities) were as follows:

	December 31	
	2010	2009
Deferred income tax assets (liabilities) - current		
Allowance for doubtful accounts	$ 18,436	$ 28,919
Allowance for losses on inventories	13,436	19,380
Unrealized cost of sales	12,204	28,949
Unused investment tax credits	-	34,955
Others	(157)	1,564
	43,919	113,767
Less: Valuation allowance	18,436	63,250
	$ 25,483	$ 50,517
Deferred income tax assets (liabilities) - noncurrent		
Unused investment tax credits	$ 190,721	$ 246,440
Impairment loss on financial assets carried at cost	69,180	80,283
Accrued pension cost	10,190	13,151
Cumulative investment loss on foreign investees under equity method	4,183	4,908
Others	4,122	5,916
Goodwill resulted from merger	(9,477)	(9,937)
	268,919	340,761
Less: Valuation allowance	200,831	268,272
	$ 68,088	$ 72,489

d. As of December 31, 2010, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	$ 70,243	$ 13,322	2011
Statute for Upgrading Industries	Employee training expenditures	9	9	2011
Statute for Upgrading Industries	Research and development expenditures	64,994	64,994	2012
Statute for Upgrading Industries	Employee training expenditures	357	155	2012
Statute for Upgrading Industries	Investments in private participation in infrastructure projects	31,333	31,333	2012
Statute for Upgrading Industries	Purchase of machinery and equipment	5,067	5,067	2012
Statute for Upgrading Industries	Research and development expenditures	60,607	60,607	2013
Statute for Upgrading Industries	Employee training expenditures	568	568	2013
Statute for Upgrading Industries	Purchase of machinery and equipment	666	666	2013
Act for Promotion of Private Participation in Infrastructure Project	Investments in private participation in infrastructure projects	14,000	14,000	2013
		$ 247,844	$ 190,721	

e. Information about integrated income tax was as follows:

	December 31	
	2010	2009
Imputation credit account (ICA) balance	$ 192,713	$ 196,284

The creditable ratio for distribution of earnings of 2010 and 2009 was 6.56% (estimate) and 9.99%, respectively.

For distribution of earnings, the ratio of the imputation credits allocated to stockholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2010 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

f. Income tax returns through 2008 and undistributed earnings returns through 2007 of the Corporation have been assessed by the tax authorities. The tax authorities assessed additional tax of $31,974 thousand and disallowed tax credit of $66,545 thousand (claimed under Statute for Upgrading Industries) on its 2007 income tax return. The Corporation disagreed with the tax authorities and had applied for a re-examination. The Corporation believes the result of the re-examination will be in its favor; accordingly, it did not provide for income tax.

19. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2010		
	Operating Costs	Operating Expenses	Total
Personnel			
Payroll	$ -	$ 1,418,790	$ 1,418,790
Insurance	-	101,245	101,245
Pension	-	71,527	71,527
Others	-	49,717	49,717
	$ -	$ 1,641,279	$ 1,641,279
Depreciation	$ 40,085	$ 57,053	$ 97,138
Amortization	$ 6,266	$ 22,366	$ 28,632

	2009		
	Operating Costs	Operating Expenses	Total
Personnel			
Payroll	$ -	$ 1,473,009	$ 1,473,009
Insurance	-	97,481	97,481
Pension	-	79,123	79,123
Others	-	49,674	49,674
	$ -	$ 1,699,287	$ 1,699,287
Depreciation	$ 42,118	$ 73,036	$ 115,154
Amortization	$ 6,109	$ 21,029	$ 27,138

20. EARNINGS PER SHARE

The numerators and denominators used in calculating basic and diluted earnings per share were as follows:

	Amount (Numerator)		Shares in Thousands	Earnings Per Share (NT$)	
	Pretax	After-tax	(Denominator)	Pretax	After-tax
2010					
Basic earnings per share Net income attributable to common stock	$ 1,134,141	$ 1,041,961	241,771	$ 4.69	$ 4.31
Diluted earnings per share Net income attributable to common stock	$ 1,134,141	$ 1,041,961	242,234	$ 4.68	$ 4.30
2009					
Basic earnings per share Net income attributable to common stock	$ 1,550,455	$ 1,404,394	240,691	$ 6.44	$ 5.83
Diluted earnings per share Net income attributable to common stock	$ 1,550,455	$ 1,404,394	243,241	$ 6.37	$ 5.77

The ARDF issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or stocks, the Corporation should presume that the entire amount of the bonus will be settled in stocks and the resulting potential stocks should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the stocks have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential stocks should be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The pro forma net income and earnings per share had the parent company's stock held by subsidiaries been treated as an investment instead of treasury stock, were as follows:

	Amount (Numerator)		Shares in Thousands	Earnings Per Share (NT$)	
	Pretax	**After-tax**	**(Denominator)**	**Pretax**	**After-tax**
2010					
Pro forma basic earnings per share					
Net income attributable to common stock	$ 1,183,147	$ 1,090,966	266,290	$ 4.44	$ 4.09
Pro forma diluted earnings per share					
Net income attributable to common stock	$ 1,183,147	$ 1,090,966	266,754	$ 4.43	$ 4.08
2009					
Pro forma basic earnings per share					
Net income attributable to common stock	$ 1,550,455	$ 1,404,394	265,211	$ 5.85	$ 5.30
Pro forma diluted earnings per share					
Net income attributable to common stock	$ 1,550,455	$ 1,404,394	267,761	$ 5.79	$ 5.24

21. FINANCIAL INSTRUMENTS

The Corporation did not engage in transactions involving derivative instruments for the years ended December 31, 2010 and 2009.

a. Fair values of financial instruments

	December 31			
	2010		2009	
Non-derivative Instruments	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Financial assets at fair value through profit or loss - current	$ 1,920,899	$ 1,920,899	$ 2,072,589	$ 2,072,589
Available-for-sale financial assets - current	27,065	27,065	24,936	24,936
Financial asset carried at cost	322,374	-	559,935	-
Investments accounted for by the equity method	7,882,275	-	7,011,317	-
Refundable deposits - noncurrent	68,850	68,850	53,315	53,315
Pledged time deposits - noncurrent	37,770	37,770	56,716	56,716
Long-term lease receivables, net	6,244	6,244	12,696	12,696

(Continued)

Non-derivative Instruments	December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Guarantee deposits received	$ 6,109	$ 6,109	$ 6,140	$ 6,140

(Concluded)

b. Methods and assumptions used in determining fair values of financial instruments

1) The balance sheet carrying amounts of cash, notes and accounts receivable, receivables from and payables to related parties, lease receivables - current, other receivables, pledged time deposits - current, refundable deposits - current, notes and accounts payable, accrued expenses, and other payables, which were not included in the assets and liabilities mentioned above, approximate fair values because of their short maturities.

2) Fair values of financial assets at fair value through profit or loss and available-for-sale financial assets are based on their quoted prices in an active market.

3) Financial assets carried at cost and investments in unlisted stocks accounted for by the equity method do not have quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values; therefore, no fair value is presented.

4) For refundable deposits - noncurrent, pledged time deposits - noncurrent and guarantee deposits received, their future receipt, settlement or payment terms are uncertain; thus, their fair values are their book values.

5) The fair values of long-term lease receivables are estimated using the present values of future cash flows, discounted by the Corporation’s contract rates with maturity periods similar to those of long-term leases.

c. Financial risks

1) Market risk. Financial instruments at fair value through profit or loss and available-for-sale financial assets are held by the Corporation for trading in active markets. Hence, the Corporation is exposed to market risks as a result of price fluctuations. The Corporation runs a control system to mitigate this risk, and management does not anticipate any material loss due to this risk.

2) Credit risk. Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties to the foregoing financial instruments are reputable financial institutions, business organizations and individuals and there is no significant concentration of credit risks. Management does not anticipate the Corporation’s exposure to default by those parties to be material.

3) Liquidity risk. The Corporation has sufficient working capital to meet the cash needs for its operations. Thus, no material liquidity risk is anticipated. In addition, the Corporation’s financial assets at fair value through profit or loss and available-for-sale financial assets are publicly-traded in an active market and can readily be sold in the market at their approximate fair values. However, it has financial assets carried at cost and investments in unlisted stocks accounted for by the equity method with significant liquidity risks because these assets do not have quoted market prices in an active market.

22. RELATED PARTY TRANSACTIONS

a. Related parties and their relationships with the Corporation

Related Parties	Relationship with the Corporation
Systime Technology Corp. (Systime)	Investee accounted for by the equity method (liquidation completed in December 2009)
Kimo.com (BVI) Corporation (Kimo BVI)	Investee accounted for by the equity method
Concord System Management Corporation (CSMC)	Investee accounted for by the equity method
Hanmore Investment Corporation (Hanmore)	Investee accounted for by the equity method
Ching Pu Investment Corporation (Ching Pu)	Investee accounted for by the equity method
Wit Investment Partners Ltd. (WIPL)	Investee accounted for by the equity method (liquidation completed in July 2009)
Enrichment I Venture Capital Corporation (EIVCC)	Investee accounted for by the equity method
Taifon Computer Co., Ltd. (Taifon)	Investee accounted for by the equity method
Taiwan Electronic Data Processing Corp. (TEDP)	Investee's subsidiary (under controlling interest)
Sysware Singapore Pte. Ltd. (Sysware Singapore)	Investee's subsidiary (under controlling interest)
Sysware (Thailand) Co., Ltd. (Sysware Thailand)	Investee's subsidiary (under controlling interest)
UCOM Information Ltd. (Shanghai) (UCOM Shanghai)	Investee's subsidiary (under controlling interest)
Systex Information (H.K.) Ltd. (Systex Info)	Investee's subsidiary (under controlling interest)
Systek Information (Shanghai) Ltd. (Systek)	Investee's subsidiary (under controlling interest)
TaiwanPay Corporation (Taiwan Pay)	Investee's subsidiary (under controlling interest)
Medincom Technology Corp. (Medincom)	Investee's subsidiary (under controlling interest)
Optima Financial Software Company (Optima)	Investee's subsidiary (under controlling interest)
Etech Corporation (Etech)	Investee's subsidiary (under controlling interest)
Investment Media Ltd. (I-Media)	Investee's investment accounted for by the equity method
AFE Solutions Limited (AFE)	Investee's investment accounted for by the equity method
Systex Data Management & Integration Service Corporation, Shanghai (Systex DMIS)	Investee's investment accounted for by the equity method
Forms Syntron Information (Hong Kong) Limited (Forms Syntron Hong Kong)	Investee's investment accounted for by the equity method (Kimo BVI indirectly acquired 30% equity in May and June 2010, and became related party accordingly)
Huang, T.J.	Chairman of the Corporation
Ho, Mei-Yu	Spouse of the chairman
Hsiao, Chung-Ho	Director of the Corporation
Yang, Shih-Chung	Corporate officer of the Corporation
Wu, Lien-Shen	Director of CSMC

b. Significant related party transactions (in addition to those disclosed in Notes 11 and 24)

	2010		2009	
	Amount	**% to Total**	**Amount**	**% to Total**
For the year				
Sales				
UCOM Shanghai	$ 21,489	1	$ 23,762	1
CSMC	16,090	-	14,841	-
Optima	12,222	-	1,795	-
Forms Syntron Hong Kong	10,612	-	-	-
Taifon	8,925	-	7,662	-
TEDP	7,114	-	19,352	-
Etech	6,941	-	-	-
Systek	4,723	-	7,341	-
Sysware Singapore	3,535	-	4,008	-
Medincom	3,530	-	11,865	-
Sysware Thailand	2,894	-	427	-
Systex DMIS	1,151	-	2,817	-
Others	2,895	-	3,550	-
	$ 102,121	1	$ 97,420	1
Purchases				
UCOM Shanghai	$ 9,736	-	$ -	-
CSMC	3,794	-	34,149	1
Taifon	3,221	-	4,349	-
TEDP	1,089	-	379	-
Others	297	-	794	-
	$ 18,137	-	$ 39,671	1
Service cost				
I-Media	$ 19,429	2	$ 21,143	2
AFE	3,894	-	4,027	-
Others	608	-	322	-
	$ 23,931	2	$ 25,492	2
Other nonoperating income				
Others	$ 1,242	4	$ 1,291	4

Acquisition of securities - investment accounted for by the equity method

For the year ended December 31, 2010

Related Parties	Stock Acquired	Number of Shares	Transaction Amount
TEDP	Taifon	5,640,800	$ 69,607
Huang, T.J.	CSMC	330,703	7,614
EIVCC	CSMC	179,098	4,123
Ho, Mei-Yu	CSMC	34,569	796
Hsiao, Chung-Ho	CSMC	25,802	594
Wu, Lien-Shen	CSMC	14,865	342
Yang, Shih-Chung	CSMC	2,793	59
			$ 83,135

	2010		2009	
	Amount	% to Total	Amount	% to Total
At the end of the year				
Receivables				
Accounts receivable				
CSMC	$ 8,726	18	$ 3,991	7
Etech	4,371	9	-	-
TEDP	4,201	9	1,330	3
Forms Syntron Hong Kong	4,020	8	-	-
Sysware Singapore	3,535	7	2,899	5
Taifon	3,313	7	3,112	6
Sysware Thailand	2,894	6	233	-
Medincom	1,313	3	10,780	19
Optima	1,282	2	1,779	3
Systek	1,240	2	425	1
Systex DMIS	-	-	2,817	5
UCOM Shanghai	-	-	9,689	17
Others	2,076	4	471	1
	36,971	75	37,526	67
Other receivables				
Systek	7,269	15	-	-
Kimo BVI	1,789	4	-	-
Sysware Singapore	1,478	3	9,966	18
Sysware Thailand	1,334	3	8,195	15
Others	105	-	87	-
	11,975	25	18,248	33
	$ 48,946	100	$ 55,774	100

	2010		2009	
	Amount	% to Total	Amount	% to Total
Payables				
Accounts payable				
CSMC	$ 3,980	42	$ 3,663	26
Taifon	2,679	29	2,182	15
I-Media	1,700	18	1,705	12
Others	1,036	11	631	4
	9,395	100	8,181	57
Other payables				
Kimo BVI	-	-	6,053	43
Others	-	-	40	-
	-	-	6,093	43
	$ 9,395	100	$ 14,274	100

The product/service sales and purchase transactions with related parties were conducted under pricing terms similar to those for third parties, for purchases or sales of similar products/services, except those transactions on products/services with special specifications. Settlement terms for related-party transactions were similar to those for third parties.

c. Compensation of directors and management personnel:

	2010	2009
Salaries	$ 52,472	$ 108,817
Incentives	27,472	43,253
Special compensation	507	991
Bonus	101	16,528
	$ 80,552	$ 169,589

23. PLEDGED ASSETS

The following assets had been pledged as collaterals, performance bonds, and import duty guarantees:

	December 31	
	2010	2009
Pledged time deposits - current	$ 275,562	$ 147,844
Pledged time deposits - noncurrent	37,770	56,716
	$ 313,332	$ 204,560

24. SIGNIFICANT CONTINGENT LIABILITIES AND COMMITMENTS AS OF DECEMBER 31, 2010

a. Unused letters of credit aggregated about $816 thousand.

b. Outstanding sales contracts amounted to about $2,676,806 thousand.

c. There was a guarantee amounting to $87,390 thousand on the unused bank loan credit lines of UCOM Information Ltd. (Shanghai).

d. There were lease contracts for office premises and warehouse, expiring between January 2011 and January 2014, with refundable deposits of $17,200 thousand at the end of 2010. Future rentals are as follows:

Year	**Amount**
2011	$ 60,198
2012	35,709
2013	30,743
2014	991

25. OTHERS

Significant financial assets and liabilities denominated in foreign currencies as of December 31, 2010 and 2009 are summarized as follows:

	December 31					
	2010			**2009**		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**	**Foreign Currencies**	**Exchange Rate**	**New Taiwan Dollars**
Financial assets						
Monetary items						
USD	$ 1,332	29.13	$ 38,805	$ 6,768	31.99	$ 216,517
HKD	507	3.75	1,901	3	4.13	10
SGD	92	22.73	2,093	84	22.84	1,912
Investment accounted for by the equity method						
USD	149,428	29.13	4,352,837	125,081	31.99	4,001,348
THB	3,228	0.98	3,148	2,998	0.96	2,892
Financial liabilities						
Monetary items						
USD	2,706	29.13	78,828	81	31.99	2,583
HKD	208	3.75	780	-	-	-
EUR	48	38.92	1,880	-	-	-

26 SEGMENT INFORMATION

Segment information is presented in the accompanying Table 1.

SYSTEX CORPORATION

SEGMENT INFORMATION
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

A. Industry information

	2010				2009			
	Sale of Computer Hardware and Software	Services (Note 1)	Others (Note 1)	Total	Sale of Computer Hardware and Software	Services (Note 1)	Others (Note 1)	Total
Sales to customers	$ 5,988,242	$ 2,882,346	$ 32,595	$ 8,903,183	$ 5,617,105	$ 2,789,721	$ 43,520	$ 8,450,346
Sales to other segments	-	-	-	-	-	-	-	-
Total sales	$ 5,988,242	$ 2,882,346	$ 32,595	$ 8,903,183	$ 5,617,105	$ 2,789,721	$ 43,520	$ 8,450,346
Segment operating income (Note 2)	$ 311,365	$ 414,890	$ 23,284	$ 749,539	$ 260,324	$ 389,734	$ 20,448	$ 670,506
Investment income, net (Note 3)				589,330				1,109,110
Other corporate income				23,481				80,936
Corporate general expenses				(228,198)				(310,076)
Interest expense				(11)				(21)
Income before income tax				$ 1,134,141				$ 1,550,455
Identifiable assets (Note 4)	$ 2,929,331	$ 708,650	$ 118,915	$ 3,756,896	$ 2,623,032	$ 716,085	$ 56,445	$ 3,395,562
Corporate general assets				3,718,707				4,129,920
Long-term investments				8,204,649				7,571,252
Total assets				$ 15,680,252				$ 15,096,734
Depreciation and amortization expenses	$ 60,491	$ 39,369	$ 25,910		$ 63,369	$ 47,394	$ 31,529	
Capital expenditures	$ 106,450	$ 18,933	$ 27,558		$ 32,054	$ 79,794	$ 11,012	

Notes:

1. The Corporation's services mainly include VAN services, data processing, computer software services, training services and computer maintenance. Other businesses include computer leasing and miscellaneous items.

2. Segment operating income is revenues less costs and operating expenses. Operating expenses include costs and expenses that are directly identifiable to an industry segment, excluding interest expense, investment income (loss) and general and administrative expenses.

3. Investment income (loss) is gain or loss from the sale of investments, dividend income, gain or loss on valuation of financial assets, net investment income (loss) recognized under the equity method, and impairment loss on financial assets carried at cost.

(Continued)

4. Identifiable assets represent tangible assets that are used by the industry segment, excluding:

   a. Assets held for general corporate purpose;
   b. Financial assets at fair value through profit or loss and available-for-sale financial assets;
   c. Long-term investments.

B. Geographical financial information

For 2010 and 2009, the Corporation did not set up foreign operation.

C. Export sales

For 2010 and 2009, the Corporation’s export sales revenue did not reach 10% of the total revenues as reported in the Corporation’s income statement.

D. Major customers

For 2010 and 2009, no customer accounted for 10% or more of the Corporation’s total operating revenues.

(Concluded)