Systex Corporation

Financial Statements for the
Years Ended December 31, 2011 and 2010 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, 2011 and 2010, 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 reflected in the accompanying financial statements using the equity method of accounting, we did not audit the financial statements as of and for the year ended December 31, 2011 of Enrichment I Venture Capital Corporation; Systex Software & Service Corporation; Chain Khan Technology Corporation; Syspower Corporation; Hanmore Investment Corporation's investee company accounted for using the equity method: Enrichment I Venture Capital Corporation; Golden Bridge Corporation's investee companies accounted for using the equity method: Soft Mobile Inc. and Syspower Corporation; Ching Pu Investment Corporation's investee company accounted for using the entity method: Syspower 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 companies using the equity method: AFE Solutions Limited and Bisnews International Limited, and the financial statements as of and for the year ended December 31, 2010 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 companies using the equity method: AFE Solutions Limited and Bisnews International Limited. The aggregate carrying values of these equity-method investments as of December 31, 2011 and 2010 were NT$1,309,406 thousand and NT$623,729 thousand, respectively or about 8.37% and 3.98% of the Corporation's respective total assets, and the amounts of the equity in their net income were NT$97,924 thousand and NT$105,200 thousand or about 60.14% and 9.28% of the Corporation's income before income tax for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements, effective January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement."

We have also audited the consolidated financial statements of Systex Corporation and its subsidiaries as of and for the years ended December 31, 2011 and 2010, and have expressed a modified unqualified opinion thereon in our report (not presented herewith) dated March 21, 2012.

March 21, 2012

Notice to Readers

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, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Par Value)

	2011		2010	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Note 4)	$ 166,861	1	$ 138,057	1
Financial assets at fair value through profit or loss (Notes 2 and 5)	1,261,627	8	1,920,899	12
Available-for-sale financial assets (Note 2)	4,731	-	27,065	-
Notes receivable, net (Notes 2 and 6)	132,387	1	114,189	1
Accounts receivable, net (Notes 2 and 6)	1,416,338	9	1,320,421	9
Receivables from related parties (Note 20)	174,334	1	48,946	-
Inventories (Notes 2 and 7)	948,369	6	904,138	6
Prepayments	272,140	2	201,743	1
Deferred income tax assets - current (Notes 2 and 16)	41,985	-	25,483	-
Pledged time deposits - current (Note 21)	295,081	2	275,562	2
Refundable deposits - current (Note 22)	76,628	1	60,364	-
Other current assets	33,239	-	48,644	-
Total current assets	4,823,720	31	5,085,511	32
LONG-TERM INVESTMENTS				
Financial assets carried at cost - noncurrent (Notes 2 and 8)	248,993	1	322,374	2
Investments accounted for by the equity method (Notes 2, 9 and 20)	8,279,221	53	7,882,275	50
Total long-term investments	8,528,214	54	8,204,649	52
PROPERTY AND EQUIPMENT (Notes 2, 10 and 20)				
Cost				
Land	930,539	6	930,539	6
Buildings	1,209,066	8	1,209,066	8
Computer equipment	200,148	1	507,069	3
Transportation equipment	9,220	-	12,147	-
Leasehold improvements	30,660	-	87,093	-
Other equipment	42,737	-	90,020	1
Total cost	2,422,370	15	2,835,934	18
Less: Accumulated depreciation	482,126	3	860,315	5
Less: Accumulated impairment	11,912	-	11,912	-
	1,928,332	12	1,963,707	13
Prepayment for equipment	819	-	2,449	-
Net property and equipment	1,929,151	12	1,966,156	13
INTANGIBLE ASSETS (Note 2)				
Computer software	37,667	-	53,283	-
Goodwill	67,481	1	67,481	1
Total intangible assets	105,148	1	120,764	1
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 11)	85,298	1	96,972	1
Refundable deposits - noncurrent (Note 22)	58,266	1	68,850	1
Deferred income tax assets - noncurrent (Notes 2 and 16)	44,935	-	68,088	-
Pledged time deposits - noncurrent (Note 21)	27,326	-	37,770	-
Others (Notes 2 and 12)	34,668	-	31,492	-
Total other assets	250,493	2	303,172	2
TOTAL	$ 15,636,726	100	$ 15,680,252	100

	2011		2010	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes and accounts payable (Note 20)	$ 1,588,673	10	$ 1,452,875	9
Income tax payable (Notes 2 and 16)	28,866	-	67,217	-
Accrued expenses (Note 14)	444,186	3	397,587	3
Receipts in advance	593,452	4	331,309	2
Other current liabilities	104,472	1	77,806	1
Total current liabilities	2,759,649	18	2,326,794	15
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 13)	72,151	-	59,942	-
Guarantee deposits received	6,620	-	6,109	-
Total other liabilities	78,771	-	66,051	-
Total liabilities	2,838,420	18	2,392,845	15
STOCKHOLDERS' EQUITY (Notes 2, 14 and 15)				
Capital stock - par value NT$10, authorized - 400,000 thousand shares; issued - 259,321 thousand shares in 2011 and 266,549 thousand shares in 2010	2,593,210	17	2,665,493	17
Advance receipts for common stock - 16 thousand shares	-	-	162	-
Total capital stock	2,593,210	17	2,665,655	17
Capital surplus				
Additional paid-in capital	8,358,116	54	8,597,169	55
Treasury stock transactions	875,061	6	821,744	5
Gain on sale of property and equipment	4,493	-	4,493	-
Donations	544	-	544	-
Long-term investments	65,843	-	56,015	1
Employee stock options	65,177	-	24,422	-
Total capital surplus	9,369,234	60	9,504,387	61
Retained earnings				
Legal reserve	527,709	3	423,513	2
Special reserve	347,018	2	-	-
Unappropriated earnings	1,168,511	8	2,007,058	13
Total retained earnings	2,043,238	13	2,430,571	15
Other equity				
Cumulative translation adjustments	(158,469)	(1)	(399,144)	(2)
Net loss not recognized as pension cost	(18,469)	-	-	-
Unrealized loss on financial instruments	(160,822)	(1)	(44,446)	-
Unrealized revaluation increment	56	-	56	-
Treasury stock - 24,520 thousand shares	(869,672)	(6)	(869,672)	(6)
Total other equity	(1,207,376)	(8)	(1,313,206)	(8)
Total stockholders' equity	12,798,306	82	13,287,407	85
TOTAL	$ 15,636,726	100	$ 15,680,252	100

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

(With Deloitte & Touche audit report dated March 21, 2012)

SYSTEX CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2011		2010	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 20)				
Sales	$ 5,938,298	63	$ 6,005,012	67
Less: Sales returns and allowances	11,606	-	16,770	-
Net sales	5,926,692	63	5,988,242	67
Service income	3,339,355	36	2,882,346	33
Others	76,285	1	32,595	-
Total operating revenues	9,342,332	100	8,903,183	100
OPERATING COSTS (Notes 2, 7, 17, 20 and 22)				
Cost of goods sold	5,190,141	56	4,899,942	55
Service cost	1,557,110	17	1,432,197	16
Others	24,397	-	9,311	-
Total operating costs	6,771,648	73	6,341,450	71
GROSS PROFIT	2,570,684	27	2,561,733	29
OPERATING EXPENSES (Notes 14, 17 and 20)				
Selling expenses	1,780,486	19	1,530,866	17
General and administrative expenses	236,967	3	228,198	3
Research and development expenses	317,169	3	281,328	3
Total operating expenses	2,334,622	25	2,040,392	23
OPERATING INCOME	236,062	2	521,341	6
NON-OPERATING INCOME AND GAINS				
Investment income recognized under the equity method, net (Notes 2 and 9)	-	-	468,266	5
Dividend income	24,820	1	21,893	-
Gain on sale of investments, net (Note 2)	14,884	-	116,538	1
Reversal of allowance for doubtful accounts	830	-	10,043	-
Others (Note 20)	15,763	-	31,658	1
Total non-operating income and gains	56,297	1	648,398	7

(Continued)

SYSTEX CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2011		2010	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Investment loss recognized under the equity method, net (Notes 2 and 9)	$ 87,032	1	$ -	-
Exchange loss, net (Note 2)	5,337	-	14,206	-
Impairment loss on financial assets carried at cost (Notes 2 and 8)	24,882	-	11,081	-
Valuation loss on financial assets, net (Notes 2 and 5)	9,400	-	6,286	-
Others	2,885	-	4,025	-
Total non-operating expenses and losses	129,536	1	35,598	-
INCOME BEFORE INCOME TAX	162,823	2	1,134,141	13
INCOME TAX (Notes 2 and 16)	17,025	-	92,180	1
NET INCOME	$ 145,798	2	$ 1,041,961	12

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 18)				
Basic	$ 0.69	$ 0.61	$ 4.69	$ 4.31
Diluted	$ 0.69	$ 0.61	$ 4.68	$ 4.30

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, 15 and 18):

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
PRO FORMA EARNINGS PER SHARE				
Basic	$ 0.81	$ 0.75	$ 4.44	$ 4.09
Diluted	$ 0.81	$ 0.75	$ 4.43	$ 4.08

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

(With Deloitte & Touche audit report dated March 21, 2012) (Concluded)

SYSTEX CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock Issued and Outstanding				Retained Earnings (Notes 2 and 14)				Other Equity					
	Shares (Thousands)	Amount	Advance Receipts for Common Stock	Capital Surplus (Notes 2 and 14)	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments (Note 2)	Net Loss Not Recognized as Pension Cost (Notes 2 and 13)	Unrealized Gain (Loss) on Financial Instruments (Notes 2 and 14)	Unrealized Revaluation Increment	Treasury Stock (Notes 2 and 15)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2010	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														
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 for exercised employee stock options	1,229	12,299	(1,350)	24,233	-	-	-	-	-	-	-	-	-	35,182
Compensation recognized for employee stock options	-	-	-	12,001	-	-	-	-	-	-	-	-	-	12,001
Adjustments brought by changes in percentage of ownership in investees	-	-	-	49,799	-	-	-	-	-	-	-	-	-	49,799
Net income for the year ended December 31, 2010	-	-	-	-	-	-	1,041,961	1,041,961	-	-	-	-	-	1,041,961
Change in translation adjustments on investments accounted for by the equity method	-	-	-	-	-	-	-	-	(361,921)	-	-	-	-	(361,921)
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
Appropriations of earnings														
Special reserve	-	-	-	-	-	347,018	(347,018)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	104,196	-	(104,196)	-	-	-	-	-	-	-
Cash dividends - NT$2.05856 per share	-	-	-	-	-	-	(533,131)	(533,131)	-	-	-	-	-	(533,131)
Issuance of stock for exercised employee stock options	572	5,717	(162)	10,126	-	-	-	-	-	-	-	-	-	15,681
Compensation recognized for employee stock options	-	-	-	43,238	-	-	-	-	-	-	-	-	-	43,238
Adjustments brought by changes in percentage of ownership in investees	-	-	-	9,828	-	-	-	-	-	-	-	-	-	9,828
Net income for the year ended December 31, 2011	-	-	-	-	-	-	145,798	145,798	-	-	-	-	-	145,798
Change in translation adjustments on investments accounted for by the equity method	-	-	-	-	-	-	-	-	240,675	-	-	-	-	240,675
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	(18,469)	-	-	-	(18,469)
Equity in changes in investees' unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	(102,037)	-	-	(102,037)
Change in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	(14,339)	-	-	(14,339)
Cash dividends received by subsidiaries from the Corporation	-	-	-	50,475	-	-	-	-	-	-	-	-	-	50,475
Acquisition of treasury stock - 7,800 thousand shares	-	-	-	-	-	-	-	-	-	-	-	-	(326,820)	(326,820)
Retirement of treasury stock - 7,800 thousand shares	(7,800)	(78,000)	-	(248,820)	-	-	-	-	-	-	-	-	326,820	-
BALANCE, DECEMBER 31, 2011	259,321	$ 2,593,210	$ -	$ 9,369,234	$ 527,709	$ 347,018	$ 1,168,511	$ 2,043,238	$ (158,469)	$ (18,469)	$ (160,822)	$ 56	$ (869,672)	$ 12,798,306

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

(With Deloitte & Touche audit report dated March 21, 2012)

SYSTEX CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 145,798	$ 1,041,961
Depreciation	105,567	97,138
Amortization	22,534	28,632
Reversal of allowance for doubtful accounts	(830)	(10,043)
Compensation cost of employee stock options	43,238	12,001
Provision for (reversal of) loss on inventories	42,374	(1,276)
Valuation loss on financial assets, net	9,400	6,286
Gain on sale of available-for-sale-financial assets, net	(5,438)	(1,440)
Gain on sale of financial assets carried at cost	-	(26,373)
Impairment loss on financial assets carried at cost	24,882	11,081
Investment loss (income) recognized under the equity method, net	87,032	(468,266)
Cash dividends received from investees under the equity method	6,240	-
Gain on sale of property and equipment, assets leased to others, idle assets and deferred charges, net	(480)	(12,684)
Deferred income tax	6,651	29,435
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	649,872	145,404
Notes receivable	(18,198)	22,634
Accounts receivable	(95,087)	(116,658)
Receivables from related parties	(125,388)	6,828
Inventories	(86,605)	(72,311)
Prepayments	(70,397)	(112,292)
Other current assets	15,408	7,986
Notes and accounts payable	135,798	151,717
Income tax payable	(38,351)	52,606
Accrued expenses	46,537	(35,580)
Receipts in advance	262,143	187,491
Other current liabilities	26,666	(3,471)
Accrued pension cost	(6,260)	(5,812)
Net cash provided by operating activities	1,183,106	934,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	13,433	1,440
Acquisition of financial assets carried at cost	(23,456)	-
Proceeds from sale of financial assets carried at cost	-	252,853
Acquisition of investments accounted for by the equity method	(1,204,627)	(773,409)
Proceeds from return of capital by investees or liquidation of investees	981,670	47,949
Acquisition of property and equipment and assets leased to others	(57,340)	(123,135)
Proceeds from sale of property and equipment and idle assets	1,079	78,959
Acquisition of computer software	(5,473)	(29,063)
Decrease (increase) in other assets	(4,768)	5,709
Increase in pledged time deposits	(9,075)	(108,772)

(Continued)

SYSTEX CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

	2011	2010
Decrease (increase) in refundable deposits	$ (5,680)	$ 9,082
Net cash received from merger	3,694	-
Net cash used in investing activities	(310,543)	(638,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits received	511	(31)
Proceeds from exercise of employee stock options	15,681	35,182
Acquisition of treasury stock	(326,820)	-
Cash dividends	(533,131)	(531,908)
Net cash used in financing activities	(843,759)	(496,757)
NET INCREASE (DECREASE) IN CASH	28,804	(200,150)
CASH, BEGINNING OF YEAR	138,057	338,207
CASH, END OF YEAR	$ 166,861	$ 138,057
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 12	$ 11
Income tax paid	$ 48,621	$ 10,140

As stated in Note 1 to the financial statements, the Corporation has merged with Ching Ho Information Corporation (Ching Ho) and Ching Feng Information Corporation (Ching Feng) on June 1, 2011. The fair values of the assets and liabilities of Ching Ho and Ching Feng at the date of merger are listed as follows:

Ching Ho

Cash	$ 1,819
Other current assets	1
Long-term investments	454,008
Accrued expenses	(31)
Net assets	455,797
Write-off of Ching Ho's stocks held by the Corporation	(412,503)
Excess of the fair value of net assets acquired over the acquisition cost	(1,445)
Cash paid by the Corporation for the acquisition of the minority interest in Ching Ho	$ 41,849

(Continued)

(In Thousands of New Taiwan Dollars)

Ching Feng

Cash	$ 1,875
Other current assets	2
Long-term investments	215,656
Accrued expenses	(31)
Net assets	217,502
Write-off of Ching Feng's stocks held by the Corporation	(215,188)
Cash paid by the Corporation for the acquisition of the minority interest in Ching Feng	$ 2,314

The Corporation acquired 98.9% equity interest of Taifon Computer Co., Ltd. in 2010. The fair values 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 21, 2012) (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.

To reorganize structure and enhance management efficiency of the Corporation, the board of directors decided to merge Ching Ho Information Corporation (Ching Ho), which is 90.5% owned by the Corporation and Ching Feng Information Corporation (Ching Feng), which is 99.0% owned by the Corporation on April 18, 2011. The effective date of the merger was June 1, 2011. The Corporation offered the price of NT$10 per share (total of $41,849 thousand and $2,314 thousand, respectively) to purchase all the stocks of the 9.5% and 1.0% equity owned by other stockholders of Ching Ho and Ching Feng, respectively. After the merger, the Corporation took over all the rights and obligations of Ching Ho and Ching Feng. The merger had been approved by the relevant authority-in-charge on July 21, 2011.

As of December 31, 2011 and 2010, the Corporation had 1,923 and 1,718 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared 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 Republic of China ("ROC"). Significant accounting policies are summarized as follows:

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.

Merger

The merger of the Corporation, Ching Ho and Ching Feng was considered as restructuring of entities under common control because the Corporation owned majority of Ching Ho's and Ching Feng's shares and exercised significant influence over the investees. Thus, Ching Ho's and Ching Feng's shares held by the Corporation were recorded at the carrying amount (reduced for asset impairment, if any). The remaining issued shares held by minority interest were accounted for based on the ROC Statement of Financial Accounting Standards No. 25 "Business Combinations," and the excess of purchase price over the fair value of the net identifiable assets was 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 benefit) in proportion to the respective fair values of the noncurrent assets.

Accounting Estimates

Under above 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.

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 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, 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.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- Accounts receivable becoming overdue; or
- It is becoming probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation's past experience in the collection of payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Leases

The fair value of computers leased under capital leases and the 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. Depreciation is computed using average years of usage: building over 60 years and leased-out computers 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 was 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 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.

The acquisition of equity interest in subsidiaries from other subsidiaries was considered as restructuring of entities under common control. Thus, the subsidiaries’ shares held by the Corporation were recorded at the carrying amount (reduced for asset impairment, if any). The remaining issued shares held by minority interest were accounted for based on the ROC Statement of Financial Accounting Standards No. 25 “Business Combinations.”

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 appropriates earnings for stock bonus to employees, or the investee acquires 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 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. Cash dividends released by the Corporation to its subsidiaries are accounted for by eliminating its investment income and adjusting the capital surplus recognized 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 new 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 on 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 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 benefit pension plan, minimum pension liability is the minimum amount of pension liability that is required to be recognized on the balance sheet. If the accrued pension liability already recognized in the book is less than the minimum amount, the difference should be recognized as additional pension liability. If the amount of additional liability does not exceed the sum of unrecognized prior service cost and unrecognized transitional net assets or net benefit obligation, then the deferred pension cost account should be charged. Deferred pension cost is classified as an intangible asset. If the amount of additional liability exceeds the sum, the excess should be charged to the net loss not yet recognized as net pension cost account which is classified as a reduction of stockholders' equity.

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 are 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.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2010 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2011.

3. ACCOUNTING CHANGES

Financial Instruments

On January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) receivables originated by the Corporation are now covered by SFAS No. 34. The adoption had no material impact on the Corporation's financial statements.

Operating Segments

On January 1, 2011, the Corporation adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Corporation that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." For this accounting change, the Corporation restated the segment information as of and for the year ended December 31, 2010 to conform to the disclosures as of and for the year ended December 31, 2011.

4. CASH

	December 31	
	2011	**2010**
Cash on hand	$ 363	$ 355
Checking accounts and demand deposits	164,452	135,671
Time deposits: Interest 0.93% in 2011; 0.69% in 2010	2,046	2,031
	$ 166,861	$ 138,057

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2011	2010
Financial assets held for trading		
Mutual funds	$ 1,261,627	$ 1,920,899

Net valuation loss on financial assets held for trading was $9,400 thousand in 2011 and $6,286 thousand in 2010.

6. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2011	2010
Notes receivable	$ 132,559	$ 114,361
Less: Allowance for doubtful accounts	172	172
	$ 132,387	$ 114,189
Accounts receivable	$ 1,527,965	$ 1,437,694
Less: Allowance for doubtful accounts	111,627	117,273
	$ 1,416,338	$ 1,320,421

7. INVENTORIES

	December 31	
	2011	2010
Merchandise	$ 928,881	$ 879,756
Maintenance parts	19,488	24,382
	$ 948,369	$ 904,138

As of December 31, 2011 and 2010, the allowance for inventory devaluation was $110,429 thousand and $79,038 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2011 and 2010 was $5,190,141 thousand and $4,899,942 thousand, respectively, which included $42,374 thousand write-downs of inventories and $1,276 thousand reversal of write-downs of inventories, respectively.

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2011	2010
Unquoted common stock	$ 248,993	$ 322,374

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.

The cost of the Corporation's investment in the common stock of Far Eastern Electronic Toll Collection Co., Ltd. is being amortized over the operating periods contracted with the government based on Interpretation No. 1998-150 issued by the Accounting Research and Development Foundation. The Corporation charged amortization expenses of $7,722 thousand and $6,529 thousand in 2011 and 2010, respectively, 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 $17,160 thousand and $4,552 thousand in 2011 and 2010, respectively.

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2011		2010	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted common stocks				
Systex Capital Group Inc.	$ 2,632,986	100.0	$ 2,648,573	100.0
Kimo.com (BVI) Corporation (Kimo BVI)	2,104,759	100.0	1,704,264	100.0
Ching Pu Investment Corporation (Ching Pu) (Notes 2 and 15)	1,979,617	100.0	2,882,328	100.0
Concord System Management Corporation (CSMC)	469,254	100.0	175,635	40.3
Golden Bridge Corporation (Golden Bridge)	293,033	100.0	-	-
Systex Software & Service Corporation	250,431	100.0	-	-
Taifon Computer Co., Ltd. (Taifon)	227,849	100.0	206,750	98.9
Syspower Corporation (Syspower)	98,489	19.5	-	-
Systemweb Technologies Co., Ltd.	69,673	35.0	-	-
Hanmore Investment Corporation (Hanmore) (Notes 2 and 15)	62,162	48.9	199,564	48.9
Enrichment I Venture Capital Corporation (EIVCC)	42,930	37.7	62,013	37.7
Sanfran Technologies Inc. (Sanfran)	21,344	15.0	-	-
Chain Khan Technology Corporation	15,330	51.0	-	-
Cloudena Corporation (Cloudena)	8,199	11.1	-	-
Systex Infopro Co., Ltd.	3,165	20.0	3,148	20.0
	$ 8,279,221		$ 7,882,275	

The Corporation exercised significant influence on Sanfran in 2011 in spite of holding less than 20% of its equity. Therefore, the investment was accounted for using the equity method.

The Corporation and subsidiaries exercise significant influence on Syspower and Cloudena because of holding equity interests of more than 20%. Therefore, the investments are accounted for using the equity method.

The Corporation acquired 50.1% of CSMC's stock for $218,735 thousand in 2011; of the amount, $217,158 thousand was paid to related parties for 49.9% equity interest (Note 20).

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 20).

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 20).

Hanmore undertook a capital reduction in September 2011, and returned $161,440 thousand of cash to the Corporation.

Ching Pu undertook a capital reduction in August 2011, and returned $800,000 thousand of cash to the Corporation.

CMSC undertook a capital reduction in August 2010, and returned $13,270 thousand of cash to the Corporation.

EIVCC undertook capital reduction in April 2011 and 2010, and returned $20,230 thousand and $34,680 thousand of cash to the Corporation, respectively.

For reorganization purpose, the boards of directors of Ching Ho Information Corporation (Ching Ho) and CSMC resolved in their respective meetings on March 24, 2011 to swap their shares. The effective date was April 17, 2011 and every 2.162 common shares of Ching Ho were swapped for one common share of CSMC.

For reorganization purpose, the boards of directors of Ching Feng Information Corporation (Ching Feng) and Taifon resolved in their respective meetings on March 24, 2011 to swap their shares. The effective date was April 17, 2011 and every 1.34 common shares of Ching Feng were swapped for one common share of Taifon.

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

	2011	2010
Syspower Corporation	$ 32,774	$ -
Kimo.com (BVI) Corporation	30,548	(99,299)
Taifon Computer Co., Ltd.	18,451	8,606
Concord System Management Corporation	17,706	4,875
Golden Bridge Corporation	13,033	-
Enrichment I Venture Capital Corporation	11,621	4,498
Ching Ho Information Corporation	9,916	-
Hanmore Investment Corporation	3,209	16,375
Sanfran Technologies Inc.	1,277	-
Systemweb Technologies Co., Ltd.	(1,377)	-
Cloudena Corporation	(5,657)	-
Systex Capital Group Inc.	(101,775)	300,522
Ching Pu Investment Corporation	(117,406)	232,459
Others	648	230
	$ (87,032)	$ 468,266

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

10. PROPERTY AND EQUIPMENT

Accumulated depreciation consisted of:

	December 31	
	2011	**2010**
Buildings	$ 342,515	$ 324,207
Computer equipment	98,415	395,965
Transportation equipment	2,561	3,952
Leasehold improvements	15,222	64,897
Other equipment	23,413	71,294
	$ 482,126	$ 860,315

11. ASSETS LEASED TO OTHERS, NET

	December 31	
	2011	**2010**
Cost		
Land	$ 5,109	$ 5,109
Buildings	1,915	1,915
Computer equipment	117,000	128,145
	124,024	135,169
Accumulated depreciation		
Buildings	547	533
Computer equipment	35,149	34,634
	35,696	35,167
Accumulated impairment loss (land and buildings)	3,030	3,030
	$ 85,298	$ 96,972

12. IDLE ASSETS, NET

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

	December 31	
	2011	**2010**
Land	$ 15,657	$ 15,657
Buildings	22,258	22,258
	37,915	37,915
Accumulated depreciation - building	9,592	9,445
Accumulated impairment loss	13,508	13,508
	$ 14,815	$ 14,962

13. 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 $75,956 thousand and $64,119 thousand in 2011 and 2010, 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% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee in 2011 and 2010. 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:

	2011	2010
Balance, beginning of year	$ 199,614	$ 183,396
Contributions	12,402	13,220
Payments	(650)	-
Interest income	2,446	2,998
Balance, end of year	$ 213,812	$ 199,614

The amounts of pension funds shown above included the amounts from the companies merged into the Corporation as well as the pension fund of $10,379 thousand and $10,255 thousand as of December 31, 2011 and 2010 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:

	2011	2010
Balance, beginning of the year	$ 59,942	$ 65,754
Pension cost for the year	6,492	7,408
Contributions	(12,402)	(13,220)
Payments	(350)	-
Additional liability	18,469	-
Balance, end of the year	$ 72,151	$ 59,942

c. Components of net periodic pension cost:

	2011		2010	
Service cost		$ 2,498		$ 2,605
Interest cost		6,846		6,463
Actual return on plan assets	$ 2,446		$ 2,998	
Loss (gain) on plan assets	1,675		(157)	
Projected return on plan assets		(4,121)		(2,841)
Amortization		1,269		1,181
Net periodic pension cost		$ 6,492		$ 7,408

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

	December 31	
	2011	2010
Benefit obligation		
Vested benefit obligation	$ 7,612	$ 3,337
Non-vested benefit obligation	278,351	254,141
Accumulated benefit obligation	285,963	257,478
Additional benefits based on future salaries	49,167	47,063
Projected benefit obligation	335,130	304,541
Fair value of plan assets	(213,812)	(199,614)
Funded status	121,318	104,927
Unrecognized net transition obligation	(5,631)	(6,590)
Unrecognized past service cost	16,010	16,882
Unrecognized net actuarial loss	(78,015)	(55,277)
Additional liability	18,469	-
Accrued pension cost	$ 72,151	$ 59,942

e. Vested benefit

	December 31	
	2011	2010
Vested benefit	$ 9,884	$ 4,467

f. Actuarial assumptions

	December 31	
	2011	2010
Discount rate used in determining present value	2.00%	2.25%
Future salary increase rate	1.00%	1.00%
Expected rate of return on plan assets	2.00%	2.00%

14. 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 the ROC approved the Plans on April 12, 2010, June 14, 2007 and June 22, 2005, respectively.

The Corporation issued 6,800 units, 3,200 units, 425 units, 4,440 units, 4,635 units, 1,500 units and 1,500 units on February 17, 2011, 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 2011 and 2010 were as follows:

	2011		2010	
Employee Stock Option	**Number of Outstanding Options**	**Weighted-average Exercise Price (NT$)**	**Number of Outstanding Options**	**Weighted-average Exercise Price (NT$)**
Beginning outstanding balance	7,673.6	$ 36.19	5,875.6	$ 37.66
Options granted	6,800.0	$ 38.40	3,200.0	$ 40.70
Options forfeited	(190.8)	$ 37.69	(306.9)	$ 41.25
Decrease due to capital reduction	(555.5)	$ 28.21	(1,094.9)	$ 30.90
Options exercised	(49.5)	$ 27.00	(0.2)	$ 27.80
Ending outstanding balance	13,677.8	$ 37.62	7,673.6	$ 38.22
Ending exercisable balance	3,857.8		3,530.4	
Weighted average fair value of the options granted (NT$)	$ 11.97		$ 13.01	

As of December 31, 2011, 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$)
$ 41.10	2,124.0	0.72	$ 41.10	2,124.0	$ 41.10
$ 29.00	1,507.5	1.04	$ 29.00	1,507.5	$ 29.00
$ 25.90	226.3	1.45	$ 25.90	226.3	$ 25.90
$ 38.60	3,200.0	3.36	$ 38.60	-	$ -
$ 38.40	6,620.0	4.13	$ 38.40	-	$ -

Options granted in 2011, 2010 and 2008 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	Issued on February 17, 2011	Issued on May 10, 2010	Issued on June 12, 2008	Issued on January 16, 2008
Grant-date share price (NT$)	$40.50	$42.70	$28.00	$30.80
Exercise price (NT$)	$38.40	$38.60	$25.90	$29.00
Expected volatility	37.24%-37.76%	39.20%-39.45%	32.80%-32.96%	32.29%-32.51%
Expected life (years)	3.5-4 years	3.5-4 years	2.25-3.25 years	2.25-3.25 years
Expected dividend yield	-	-	-	-
Risk-free interest rate	1%-1.045%	0.69%-0.87%	2.59%	2.46%

The compensation cost of employee stock option was $43,238 thousand and $12,001 thousand in 2011 and 2010, respectively.

Intrinsic value-based method was adopted for options granted before January 1, 2008, and there was no compensation cost recognized in 2011 and 2010 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 would have been as follows:

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

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

Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares and treasury stock transaction) and donation received may be capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital. Under the revised Company Law issued on January 4, 2012, the aforementioned capital surplus also may be distributed in cash. The capital surplus from long-term investments may not be used for any purpose.

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.

Legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. This reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

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 2010 and 2009 had been approved in the stockholders' meetings held on June 24, 2011 and June 18, 2010, 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 2010	For Year 2009	For Year 2010	For Year 2009
Special reserve	$ 347,018	$ (233,051)	$ -	$ -
Legal reserve	104,196	140,440	-	-
Cash dividends	533,131	531,908	2.05856	1.9986
	$ 984,345	$ 439,297	$ 2.05856	$ 1.9986

Bonus to employees and remuneration to directors for 2010 and 2009 resolved in the stockholders' meetings held on June 24, 2011 and June 18, 2010, respectively, were as follows:

	Year Ended December 31			
	2010		2009	
	Bonus to Employees	Remuneration to Directors	Bonus to Employees	Remuneration to Directors
Amounts approved in stockholders' meetings	$ 590	$ 11,814	$126,395	$ 25,279
Amounts recognized in respective financial statements	590	11,804	126,395	25,279
	$ -	$ 10	$ -	$ -

The differences between the approved amounts of the remuneration to directors and the accrued amounts reflected in the financial statements for the year ended December 31, 2010 which were primarily due to changes in estimates had been adjusted in profit and loss for the year ended December 31, 2011.

Under the Articles of Incorporation, the estimated amounts of the bonus to employees and the remuneration to directors were 0.1% and 2%, respectively, of net income (net of legal reserve and special reserve). For the years ended December 31, 2011 and 2010, the bonus to employees and the remuneration to directors were as follows:

	2011	2010
Remuneration to directors	$ -	$ 11,804
Bonus to employees	-	590
	$ -	$ 12,394

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.

The appropriations of earnings for 2011 had been proposed by the board of directors on March 21, 2012 as follows:

	Appropriation of Earnings
Legal reserve	$ 14,580
Special reserve	264,421

In addition, the board of directors proposed in the same meeting the distribution in cash of the capital surplus from shares issued in excess of par. The distribution amounted to $518,705 thousand at NT$2 per share.

The appropriations of 2011 earnings and distribution of capital surplus will be resolved by the stockholders in their meeting scheduled for June 2012.

Information about the appropriations of earnings and distribution of capital surplus are available on the Market Observation Post System website of the Taiwan Stock Exchange.

Unrealized Gain or Loss on Financial Instruments

For the years ended December 31, 2011 and 2010, 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, 2011			
Balance, beginning of year	$ 14,503	$ (58,949)	$ (44,446)
Recognized in stockholders' equity	(14,339)	(102,037)	(116,376)
Balance, end of year	$ 164	$ (160,986)	$ (160,822)
Year ended December 31, 2010			
Balance, beginning of 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 year	$ 14,503	$ (58,949)	$ (44,446)

15. 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
2011				
To maintain the Corporation's credibility and stockholders' interest	-	7,800	7,800	-
Reclassification of parent company stock held by subsidiaries from equity-method investments into treasury stock	24,520	-	-	24,520
	24,520	7,800	7,800	24,520
2010				
Reclassification of parent company stock held by subsidiaries from equity-method investments into treasury stock	24,520	-	-	24,520

The Corporation's shares held by subsidiaries as of December 31, 2011 and 2010 were as follows:

Subsidiary	Shares (In Thousands)	Investment Cost	Market Value
December 31, 2011			
Hanmore Investment Corporation (Hanmore)	23,586	$ 1,155,848	$ 750,025
Ching Pu Investment Corporation	12,982	$ 488,011	$ 412,811
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

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 2011 and 2010.

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 plan in accordance with Article 28-2 of Securities and Exchange Act. The Corporation acquired 7,800 thousand shares of its common stock between April 19, 2011 and June 18, 2011, and canceled them on August 30, 2011. The share acquisition costs were $326,820 thousand, of which $78,000 thousand was charged to capital stock; $251,662 thousand was charged to additional paid-in capital; and $2,842 thousand was credited to treasury stock capital surplus.

16. INCOME TAX

a. Income tax expense was as follows:

	2011	2010
Currently payable	$ 54,371	$ 64,524
Additional income tax on unappropriated earnings (10%)	5,762	73,205
Deferred income tax		
Temporary differences and investment tax credits	(44,931)	(48,417)
Effect of tax law changes on deferred income tax	-	32,866
Effect of tax law changes on valuation allowance	-	(23,879)
Prior years' tax adjustment	1,823	(6,119)
Income tax expense	$ 17,025	$ 92,180

Income tax payable as of December 31, 2011 and 2010 was net of prepaid income taxes of $1,878 thousand and $1,648 thousand, respectively.

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.

In May 2010, 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 20% to 17%, effective January 1, 2010.

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

	2011	2010
Tax on pretax income at statutory rate	$ 27,680	$ 192,804
Add (deduct) tax effects of:		
Equity in the net loss (income) of investees	14,795	(79,605)
Income on sale of securities	(2,530)	(19,812)
Unrealized (reversal of unrealized) cost of sales	11,158	(12,403)
Reversal of allowance for doubtful accounts	(1,357)	(6,186)
Unrealized net loss on valuation of financial instruments	1,598	1,069
Others	3,027	(8,759)
Loss carryforward used	-	(2,584)
Currently payable	$ 54,371	$ 64,524

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

	December 31	
	2011	**2010**
Deferred income tax assets (liabilities) - current		
Unrealized cost of sales	$ 23,362	$ 12,204
Allowance for losses on inventories	18,773	13,436
Allowance for doubtful accounts	17,129	18,436
Others	(150)	(157)
	59,114	43,919
Less: Valuation allowance	17,129	18,436
	$ 41,985	$ 25,483
Deferred income tax assets (liabilities) - noncurrent		
Unused investment tax credits	$ 93,621	$ 190,721
Impairment loss on financial assets carried at cost	68,586	69,180
Accrued pension cost	9,126	10,190
Cumulative investment loss on foreign investees under equity method	4,183	4,183
Goodwill from merger	(10,507)	(9,477)
Others	3,777	4,122
	168,786	268,919
Less: Valuation allowance	123,851	200,831
	$ 44,935	$ 68,088

d. As of December 31, 2011, investment tax credits comprised of:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Investments in private participation in infrastructure projects	$ 31,333	$ 28,367	2012
Statute for Upgrading Industries	Research and development expenditures	50,304	50,304	2013
Statute for Upgrading Industries	Employee training expenditures	284	284	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
		$ 96,587	$ 93,621	

e. Information about integrated income tax was as follows:

	December 31	
	2011	**2010**
Imputation credit account (ICA) balance	$ 163,191	$ 192,713

The creditable ratio for distribution of earnings of 2011 and 2010 was 7.77% (estimate) and 8.30%, 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 2011 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

f. Income tax returns through 2009 and undistributed earnings returns through 2008 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 the 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.

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2011		
	Operating Costs	**Operating Expenses**	**Total**
Personnel			
Payroll	$ -	$ 1,648,435	$ 1,648,435
Insurance	-	122,776	122,776
Pension	-	82,448	82,448
Others	-	55,815	55,815
	$ -	$ 1,909,474	$ 1,909,474
Depreciation	$ 52,750	$ 52,817	$ 105,567
Amortization	$ 5,643	$ 16,891	$ 22,534

	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

18. 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
2011					
Basic earnings per share					
Net income attributable to common stock	$ 162,823	$ 145,798	237,116	$ 0.69	$ 0.61
Diluted earnings per share					
Net income attributable to common stock	$ 162,823	$ 145,798	237,520	$ 0.69	$ 0.61
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

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
2011					
Pro forma basic earnings per share					
Net income attributable to common stock	$ 213,298	$ 196,270	261,636	$ 0.81	$ 0.75
Pro forma diluted earnings per share					
Net income attributable to common stock	$ 213,298	$ 196,270	262,040	$ 0.81	$ 0.75
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

19. FINANCIAL INSTRUMENTS

The Corporation did not engage in transactions involving derivative instruments for the years ended December 31, 2011 and 2010.

a. Fair values of financial instruments

	December 31			
	2011		2010	
Non-derivative Instruments	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss	$ 1,261,627	$ 1,261,627	$ 1,920,899	$ 1,920,899
Available-for-sale financial assets	4,731	4,731	27,065	27,065
Financial asset carried at cost	248,993	-	322,374	-
Investments accounted for by the equity method	8,279,221	-	7,882,275	-
Refundable deposits - noncurrent	58,266	58,266	68,850	68,850
Pledged time deposits - noncurrent	27,326	27,326	37,770	37,770
Long-term lease receivables, net (included in other assets - others)	9,835	9,835	6,244	6,244
Liabilities				
Guarantee deposits received	6,620	6,620	6,109	6,109

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 (included in other current assets), pledged time deposits - current, refundable deposits - current, notes and accounts payable, accrued expenses, and other payables (included in other current liabilities), 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 counterparties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counterparties 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.

20. RELATED PARTY TRANSACTIONS

a. Related parties and their relationships with the Corporation

Related Parties	Relationship with the Corporation
Kimo.com (BVI) Corporation (Kimo BVI)	Subsidiary
Concord System Management Corporation (CSMC)	Subsidiary
Hanmore Investment Corporation (Hanmore)	Subsidiary
Ching Pu Investment Corporation (Ching Pu)	Subsidiary
Taifon Computer Co., Ltd. (Taifon)	Subsidiary
Cloudena Corporation (Cloudena)	Subsidiary
Golden Bridge Corporation (Golden Bridge)	Subsidiary
Syspower Corporation (Syspower)	Subsidiary
Systemweb Technologies Co., Ltd. (Systemweb)	Investee accounted for by the equity method
Enrichment I Venture Capital Corporation (EIVCC)	Investee accounted for by the equity method
Sanfran Technologies Inc.(Sanfran)	Investee accounted for by the equity method
Taiwan Electronic Data Processing Corp. (TEDP)	Subsidiary
Sysware Singapore Pte. Ltd. (Sysware Singapore)	Subsidiary
Sysware (Thailand) Co., Ltd. (Sysware Thailand)	Subsidiary
PT. Sysware Indonesia (Sysware Indonesia)	Subsidiary
Sysware Shenglong Information Systems Co., Ltd. (Sysware Shenglong)	Subsidiary
UCOM Information Ltd. (Shanghai) (UCOM Shanghai)	Subsidiary
Systex Information (H.K.) Ltd. (Systex Info)	Subsidiary
Systek Information (Shanghai) Ltd. (Systek)	Subsidiary
TaiwanPay Corporation (Taiwan Pay)	Subsidiary
Etech Corporation (Etech)	Subsidiary
Soft Mobile Inc. (Soft Mobile)	Subsidiary
Medincom Technology Corp. (Medincom)	Subsidiary
Optima Financial Software Company (Optima)	Subsidiary
Investment Media Ltd. (I-Media)	Investee accounted for by the equity method of Ching Pu
AFE Solutions Limited (AFE)	Investee accounted for by the equity method of Systex Capital Group Inc. (SCGI, a subsidiary of the Corporation)

(Continued)

Related Parties	Relationship with the Corporation
Systex Data Management & Integration Service Corporation, Shanghai (Systex DMIS)	Investee accounted for by the equity method of Kimo BVI and SCGI
Forms Syntron Information (Hong Kong) Limited (Forms Syntron Hong Kong)	Investee accounted for by the equity method of Kimo BVI (Kimo BVI indirectly acquired 30% equity in May and June 2010, and became related party accordingly)
Ching Ho Information Corporation (Ching Ho)	Subsidiary (merged with the Corporation on June 1, 2011)
Ching Feng Information Corporation (Ching Feng)	Subsidiary (merged with the Corporation on June 1, 2011)
Huang, T.J.	Chairman of the Corporation
Ho, Mei-Yu	Spouse of the chairman
Hsiao, Chung-Ho	Director of the Corporation
Wu, Lien-Shen	Director of CSMC

(Concluded)

b. Significant related party transactions (in addition to those disclosed in Notes 9 and 22)

	2011		2010	
	Amount	% to Total	Amount	% to Total
For the year				
Sales				
CSMC	$ 181,857	2	$ 16,090	-
UCOM Shanghai	39,717	1	21,489	1
Taifon	33,221	1	8,925	-
TEDP	21,938	-	7,114	-
Medincom	19,567	-	3,530	-
Sysware Singapore	11,305	-	3,535	-
Systek	8,493	-	4,723	-
Forms Syntron Hong Kong	7,151	-	10,612	-
Sysware Indonesia	6,279	-	-	-
Etech	6,272	-	6,941	-
Sanfran	5,593	-	-	-
Sysware Shenglong	5,336	-	-	-
Sysware Thailand	4,641	-	2,894	-
Taiwan Pay	4,466	-	1,024	-
Optima	-	-	12,222	-
Others	3,532	-	3,022	-
	$ 359,368	4	$ 102,121	1
Purchases				
Sanfran	$ 45,298	1	$ -	-
Taifon	29,592	1	3,221	-
Forms Syntron Hong Kong	8,760	-	-	-
UCOM Shanghai	7,612	-	9,736	-
CSMC	1,740	-	3,794	-
Others	2,663	-	1,386	-
	$ 95,665	2	$ 18,137	-

	2011 Amount	2011 % to Total	2010 Amount	2010 % to Total
Service cost				
I-Media	$ 19,429	1	$ 19,429	2
AFE	90	-	3,894	-
Others	1,126	-	608	-
	$ 20,645	1	$ 23,931	2
Operating expenses				
Sysware Shenglong	$ 8,431	-	$ -	-
Others	196	-	-	-
	$ 8,627	-	$ -	-
Other nonoperating income				
Others	$ 1,741	11	$ 1,242	4
Acquisition of property and equipment				
CSMC	$ 6,434	15	$ -	-
Others	482	1	-	-
	$ 6,916	16	$ -	-
Sale of property and equipment				
Soft Mobile	$ 565	94	$ -	-

Acquisition of securities - investment accounted for by the equity method.

For the year ended December 31, 2011

Related Parties	Stock Acquired	Number of Shares	Transaction Amount
Ching Pu	CSMC	8,749,172	$ 189,157
Hanmore	CSMC	1,317,051	28,001
Hanmore	Ching Ho	4,012	40
Ching Pu	Ching Ho	3,735	37
			$ 217,235

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

	2011		2010	
	Amount	**% to Total**	**Amount**	**% to Total**
At the end of the year				
Receivables				
Accounts receivable				
CSMC	$ 95,524	55	$ 8,726	18
Medincom	16,997	10	1,313	3
TEDP	10,380	6	4,201	9
Taifon	9,743	6	3,313	7
Sysware Singapore	8,828	5	3,535	7
Sysware Indonesia	5,995	3	-	-
Sysware Thailand	4,534	3	2,894	6
Etech	4,342	2	4,371	9
Systek	4,300	2	1,240	2
Sysware Shenglong	3,272	2	-	-
Forms Syntron Hong Kong	1,741	1	4,020	8
Others	2,603	2	3,358	6
	168,259	97	36,971	75
Other receivables				
Soft Mobile	3,477	2	-	-
Kimo BVI	1,689	1	1,789	4
Systek	-	-	7,269	15
Others	909	-	2,917	6
	6,075	3	11,975	25
	$ 174,334	100	$ 48,946	100
Payables				
Accounts payable				
Sanfran	$ 21,806	1	$ -	-
Forms Syntron Hong Kong	2,960	-	-	-
I-Media	1,786	-	1,700	-
Taifon	-	-	2,679	-
Others	2,115	-	5,016	1
	28,667	1	9,395	1
Other payables				
Sysware Shenglong	8,431	1	-	-
	$ 37,098	2	$ 9,395	1

The product/service sales and purchase transactions with related parties were conducted under pricing terms similar to those for third parties, i.e., for purchases or sales of similar products/services, except 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:

	2011	2010
Salaries	$ 43,491	$ 52,472
Incentives	26,623	27,472
Special compensation	355	507
Bonus	173	101
	$ 70,642	$ 80,552

21. PLEDGED ASSETS

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

	December 31	
	2011	2010
Pledged time deposits - current	$ 295,081	$ 275,562
Pledged time deposits - noncurrent	27,326	37,770
	$ 322,407	$ 313,332

22. SIGNIFICANT CONTINGENT LIABILITIES AND COMMITMENTS AS OF DECEMBER 31, 2011

a. Unused letters of credit in aggregate amount of about $822 thousand.

b. Outstanding sales contracts in the amount of about $2,855,162 thousand.

c. Guarantees amounting to $151,375 thousand, $60,550 thousand, and $60,550 thousand on the unused bank loan credit lines of UCOM Information Ltd. (Shanghai), Systek Information (Shanghai) Ltd. and Systex Information (H.K.) Ltd., respectively.

d. The Corporation entered into one project contract with third party. However, the Corporation could not meet the third party's requirements and could not complete the contract; thus, the third party would like to terminate the contract accordingly. The Corporation accrued $176,707 thousand as loss on this contract in 2011.

e. Lease contracts for office premises and parking lot, expiring between February 2012 and August 2014, with refundable deposits of $17,964 thousand at the end of 2011. Future rentals are as follows:

Year	Amount
2012	$ 52,747
2013	43,268
2014	5,672

23. OPERATING SEGMENT INFORMATION

The Corporation adopted the newly issued SFAS No. 41, "Operating Segments" on January 1, 2011. The segment information was disclosed in Note 28 to the consolidated financial statements of the Corporation and its subsidiaries as of and for the years ended December 31, 2011 and 2010.

24. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

Significant financial assets and liabilities denominated in foreign currencies as of December 31, 2011 and 2010 were summarized as follows:

	December 31					
	2011			2010		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**	**Foreign Currencies**	**Exchange Rate**	**New Taiwan Dollars**
Financial assets						
Monetary items						
USD	$ 2,278	30.28	$ 68,968	$ 1,332	29.13	$ 38,805
RMB	1,788	4.80	8,595	-	-	-
HKD	305	3.90	1,187	507	3.75	1,901
SGD	124	23.31	2,898	92	22.73	2,093
JPY	6,151	0.39	2,403	244	0.36	88
Investment accounted for by the equity method						
USD	156,545	30.28	4,739,391	149,428	29.13	4,352,837
THB	3,246	0.98	3,165	3,228	0.98	3,148
Financial liabilities						
Monetary items						
USD	2,456	30.28	74,342	2,706	29.13	78,828
EUR	-	-	-	48	38.92	1,880