

CAPITAL SECURITIES CORPORATION
BALANCE SHEETS
December 31, 2011 and 2010
(New Taiwan Dollars in Thousands, Except Share Data)

| ASSETS | December 31, 2011 | | December 31, 2010 | | LIABILITIES AND STOCKHOLDERS' EQUITY | December 31, 2011 | | December 31, 2010 | |
|---|--------------------------|------------|--------------------------|------------|---|--------------------------|------------|--------------------------|------------|
| | Amount | % | Amount | % | | Amount | % | Amount | % |
| Current Assets | | | | | Current Liabilities | | | | |
| Cash and cash equivalents (Notes 2 and 4(1)) | \$ 2,919,372 | 5 | 1,343,507 | 2 | Short-term borrowings (Note 4(10)) | \$ 1,155,000 | 2 | 1,975,027 | 3 |
| Financial assets measured at fair value through profit or loss - current (Notes 2, 4(2), 4(21) and 6) | 14,952,692 | 26 | 15,065,034 | 25 | Commercial paper payable (Note 4(11)) | - | - | 7,308,325 | 12 |
| Bonds purchased under resale agreements (Notes 2, 4(3) and 6) | 1,003,334 | 2 | 1,575,559 | 3 | Bonds sold under repurchase agreements (Notes 4(13) and 5) | 11,594,102 | 20 | 8,351,156 | 14 |
| Receivable for securities provided as collateral (net of allowance for doubtful accounts) | 17,696,799 | 31 | 20,003,544 | 32 | Financial liabilities measured at fair value through profit or loss - current (Notes 4(12) and 4(21)) | 1,212,796 | 2 | 1,712,783 | 3 |
| Refinancing margin | 4,635 | - | - | - | Guaranty deposited for securities lent | 2,729,685 | 5 | 1,580,004 | 3 |
| Receivable on refinancing collateral | 12,718 | - | 11,845 | - | Proceeds payable from securities lent | 3,253,659 | 6 | 1,870,818 | 3 |
| Receivable for securities lending and borrowing | - | - | 1,464 | - | Security lending refundable deposits | 2,519,992 | 5 | 1,250,226 | 2 |
| Securities borrowing margin | 934,784 | 2 | 145,926 | - | Notes payable | 865 | - | 901 | - |
| Notes receivable | 5,410 | - | 3,064 | - | Accounts payable | 87,033 | - | 258,052 | - |
| Accounts receivable (Notes 4(4) and 5) | 1,360,639 | 2 | 760,609 | 1 | Advance receipts | 13,145 | - | 12,958 | - |
| Prepayments | 30,874 | - | 16,075 | - | Receipts under custody | 134,379 | - | 89,414 | - |
| Other receivables | 216,937 | - | 130,832 | - | Other payables (Notes 2 and 4(14)) | 3,133,784 | 5 | 3,094,552 | 5 |
| Pledged assets - current (Note 6) | 575,228 | 1 | 359,500 | 1 | Deferred income tax liabilities - current (Notes 2 and 4(17)) | 58,203 | - | - | - |
| Deferred income tax assets - current (Notes 2 and 4(17)) | - | - | 15,114 | - | Other financial liabilities - current (Note 4(21)) | 283,343 | 1 | 302,513 | - |
| | <u>39,713,422</u> | <u>69</u> | <u>39,432,073</u> | <u>64</u> | | <u>26,175,986</u> | <u>46</u> | <u>27,806,729</u> | <u>45</u> |
| Funds and Long-Term Investments | | | | | Long-Term Liabilities | | | | |
| Long-term investments under equity method (Notes 2 and 4(5)) | 3,058,557 | 5 | 14,957,827 | 24 | Long-term borrowings (Note 4(15)) | 299,859 | 1 | 4,699,867 | 8 |
| Available-for-sale financial assets - non-current (Notes 2 and 4(2)) | 646,539 | 1 | 50,558 | - | Other financial liabilities - non-current (Note 4(21)) | 1,769,347 | 3 | 1,265,891 | 2 |
| Held-to-maturity financial assets - non-current (Notes 2, 4(2) and 6) | 290,000 | 1 | 790,885 | 1 | Other long-term liabilities | 47,691 | - | 27,698 | - |
| Financial assets measured at fair value through profit or loss - non-current (Notes 2, 4(2), 4(21) and 6) | 238,616 | - | 259,153 | - | | <u>2,116,897</u> | <u>4</u> | <u>5,993,456</u> | <u>10</u> |
| | <u>4,233,712</u> | <u>7</u> | <u>16,058,423</u> | <u>25</u> | Other Liabilities | | | | |
| Premises and Property (Notes 2, 4(6) and 6) | | | | | Reserve for default loss (Note 2) | - | - | 200,351 | - |
| Land | 4,201,952 | 7 | 2,918,738 | 5 | Reserve for trading loss (Note 2) | - | - | 18,893 | - |
| Buildings | 2,260,989 | 4 | 1,600,896 | 3 | Guarantee deposits received (Note 5) | 18,567 | - | 7,163 | - |
| Equipment | 561,692 | 1 | 543,782 | 1 | Accrued pension liabilities - non-current (Notes 2 and 4(16)) | 264,876 | - | 19,493 | - |
| Prepayment for equipment | 41,527 | - | 22,051 | - | Other liabilities (Notes 7(8)) | 163,546 | - | - | - |
| Leasehold improvements | 239,006 | - | 220,430 | - | | <u>446,989</u> | <u>-</u> | <u>245,900</u> | <u>-</u> |
| | <u>7,305,166</u> | <u>12</u> | <u>5,305,897</u> | <u>9</u> | Brokerage accounts, net (Note 4(9)) | <u>-</u> | <u>-</u> | <u>125,844</u> | <u>-</u> |
| Less: Accumulated depreciation | (1,275,291) | (2) | (1,284,818) | (2) | Total Liabilities | <u>28,739,872</u> | <u>50</u> | <u>34,171,929</u> | <u>55</u> |
| | <u>6,029,875</u> | <u>10</u> | <u>4,021,079</u> | <u>7</u> | Stockholders' Equity | | | | |
| Intangible Assets (Notes 2, and 4(7)) | | | | | Common stock, par value \$10 per share, 3,000,000 thousand shares authorized, 2,369,073 and 2,305,723 thousand shares issued and outstanding, respectively (Note 4(18)) | 23,690,730 | 41 | 23,057,225 | 37 |
| Goodwill | 3,126,698 | 5 | - | - | Capital surplus | | | | |
| Deferred pension cost | 9,846 | - | 2,729 | - | Premium from stock issuance | 1,940,208 | 3 | 1,803,328 | 3 |
| Other intangible assets | 404,803 | 1 | 389,999 | 1 | Treasury stock transactions (Note 4(19)) | 107,031 | - | 107,031 | - |
| | <u>3,541,347</u> | <u>6</u> | <u>392,728</u> | <u>1</u> | Long-term investments | 29,534 | - | 29,534 | - |
| Other Assets | | | | | Paid-in capital from merger (Note 1) | 658,234 | 1 | 658,234 | 1 |
| Guaranty deposited for business operations | 985,292 | 2 | 83,250 | - | Retained earnings | | | | |
| Settlement fund | 420,314 | 1 | 303,995 | - | Legal reserve | 419,092 | 1 | 254,533 | - |
| Refundable deposits | 100,224 | - | 71,738 | - | Special reserve (Note 2) | 1,136,038 | 2 | 509,066 | 1 |
| Deferred debits | 60,071 | - | 39,023 | - | Unappropriated earnings (Notes 4(17) and 4(18)) | 872,948 | 2 | 1,660,446 | 3 |
| Leased assets (net of accumulated depreciation) (Notes 2 and 6) | 1,234,965 | 2 | 676,898 | 1 | Cumulative translation adjustments (Note 2) | (183) | - | (58,001) | - |
| Idle assets - land (Notes 2 and 6) | 9,904 | - | - | - | Net loss not recognized as pension cost | (33,664) | - | - | - |
| Deferred income tax assets - non-current (Notes 2 and 4(17)) | 851,148 | 2 | 1,113,886 | 2 | Unrealized gain or loss on financial instruments | (3,093) | - | 111 | - |
| Others (net of allowance for doubtful accounts) (Notes 2 and 4(8)) | 8,229 | - | 343 | - | | <u>28,816,875</u> | <u>50</u> | <u>28,021,507</u> | <u>45</u> |
| | <u>3,670,147</u> | <u>7</u> | <u>2,289,133</u> | <u>3</u> | Total Stockholders' Equity | | | | |
| Brokerage accounts, net (Note 4(9)) | <u>368,244</u> | <u>1</u> | <u>-</u> | <u>-</u> | Significant commitments and contingencies | | | | |
| TOTAL ASSETS | \$ 57,556,747 | 100 | 62,193,436 | 100 | TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 57,556,747 | 100 | 62,193,436 | 100 |

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF INCOME
Years Ended December 31, 2011 and 2010
(New Taiwan Dollars in Thousands, Except Earnings Per Share Data)

| | 2011 | | 2010 | |
|--|--------------|------|-------------------|------------------|
| | Amount | % | Amount | % |
| Revenues: | | | | |
| Brokerage commissions | \$ 2,690,191 | 35 | 2,590,253 | 40 |
| Underwriting commissions | 336,416 | 4 | 426,176 | 6 |
| Gain on sale of trading securities - proprietary trading | - | - | 260,126 | 4 |
| Gain on sale of trading securities - underwriting | - | - | 74,748 | 1 |
| Securities management, distribution, and management fees | 129,339 | 2 | 72,853 | 1 |
| Interest revenue | 1,564,295 | 20 | 1,481,965 | 22 |
| Dividend revenue | 212,374 | 3 | 121,824 | 2 |
| Gain on valuation of trading securities | - | - | 295,882 | 4 |
| Gain on covering of borrowed securities and bonds with resale agreements | 25,652 | - | - | - |
| Gain on valuation of borrowed securities and bonds with resale agreements | 30,479 | - | 13,812 | - |
| Gain on stock warrants issued (Note 4(21)) | 1,584,796 | 21 | 686,112 | 10 |
| Futures commission revenue (Note 5) | 111,962 | 1 | 97,373 | 1 |
| Gain on derivative financial instruments - futures (Note 4(21)) | 10,252 | - | - | - |
| Gain on derivative financial instruments - OTC (Note 4(21)) | 466,298 | 6 | - | - |
| Other operating revenue | 286,530 | 4 | 303,312 | 5 |
| Non-operating revenue (Note 5) | 298,969 | 4 | 207,912 | 3 |
| Investment income under the equity method (Note 4(5)) | - | - | 52,366 | 1 |
| | 7,747,553 | 100 | 6,684,714 | 100 |
| Expenses: | | | | |
| Brokerage fees | 174,690 | 2 | 168,003 | 3 |
| Brokerage and clearing fees - proprietary trading | 11,994 | - | 10,443 | - |
| Clearing and exchange fees - refinancing | 1,691 | - | 2,058 | - |
| Clearing and exchange fees - underwriting | 10,539 | - | 4,043 | - |
| Loss on sale of trading securities - proprietary trading | 420,480 | 6 | - | - |
| Loss on sale of trading securities - underwriting | 1,844 | - | - | - |
| Loss on sale of trading securities - hedging | 669,229 | 9 | 154,657 | 3 |
| Interest expense (Note 5) | 229,354 | 3 | 151,652 | 2 |
| Loss on valuation of trading securities | 932,920 | 12 | - | - |
| Loss on covering of borrowed securities and bonds with resale agreements | - | - | 9,055 | - |
| Loss on borrowed securities | 8,386 | - | 10,055 | - |
| Stock warrant issuance expense | 77,519 | 1 | 51,323 | 1 |
| Securities commission expenses - introducing brokers (Note 5) | 2,855 | - | 263 | - |
| Loss on derivative financial instruments - futures (Note 4(21)) | - | - | 19,325 | - |
| Loss on derivative financial instruments - OTC (Note 4(21)) | - | - | 435,927 | 7 |
| Operating expenses (Note 5) | 3,885,048 | 50 | 3,362,670 | 50 |
| Other operating expenses | 9,670 | - | 23,776 | - |
| Non-operating expenses | 9,194 | - | 23,020 | - |
| Investment loss under the equity method (Note 4(5)) | 19,573 | - | - | - |
| | 6,464,986 | 83 | 4,426,270 | 66 |
| Continuing operations' income before tax | 1,282,567 | 17 | 2,258,444 | 34 |
| Less: Income tax expense (Notes 2 and 4(17)) | 468,169 | 6 | 658,801 | 10 |
| Continuing operations' net income | 814,398 | 11 | 1,599,643 | 24 |
| Discontinued operations' net loss (net of taxes) (Note 10(4)) | - | - | (1,299) | - |
| Income before extraordinary items | 814,398 | 11 | 1,598,344 | 24 |
| Extraordinary gain, Net of Tax (less income tax expense \$9,678) (Notes 2 and 10(5)) | - | - | 47,249 | 1 |
| Net income | \$ 814,398 | 11 | 1,645,593 | 25 |
| | | | Before Tax | After Tax |
| Basic earnings per share(dollar)(Note 4(20)) | | | | |
| Income from continuing operations | \$ 0.54 | 0.35 | 1.10 | 0.78 |
| Discontinued operations' net loss | - | - | - | - |
| Extraordinary gain | - | - | 0.03 | 0.02 |
| Net income | \$ 0.54 | 0.35 | 1.13 | 0.80 |
| Basic earnings per share(dollar)-retroactively stated(Note 4(20)) | | | | |
| Income from continuing operations | | | 1.09 | 0.77 |
| Loss from discontinued operations | | | - | - |
| Extraordinary gain | | | 0.03 | 0.02 |
| Net income | | | 1.12 | 0.79 |
| Dilutive earnings per share(dollar) (Note 4(20)) | | | | |
| Income from continuing operations | \$ 0.54 | 0.34 | 1.10 | 0.78 |
| Loss from discontinued operations | - | - | - | - |
| Extraordinary gain | - | - | 0.03 | 0.02 |
| Net income | \$ 0.54 | 0.34 | 1.13 | 0.80 |
| Dilutive earnings per share(dollar)-retroactively stated(Note 4(20)) | | | | |
| Income from continuing operations | | | 1.09 | 0.77 |
| Loss from discontinued operations | | | - | - |
| Extraordinary gain | | | 0.03 | 0.02 |
| Net income | | | 1.12 | 0.79 |

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2011 and 2010
(New Taiwan Dollars in Thousands)

| | Retained earnings | | | | | Shareholder's equity - other items | | | Total |
|---|----------------------|------------------|----------------|------------------|-------------------------|------------------------------------|---|---|-------------------|
| | Capital stock | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Cumulative translation adjustments | Net loss not recognized as pension cost | Unrealized gain (loss) on financial instruments | |
| Beginning balance, January 1, 2010 | \$ 16,107,860 | 797,372 | - | - | 2,545,331 | 73,575 | - | - | 19,524,138 |
| Issuance of common stock through merger | 2,688,722 | 505,480 | - | - | - | - | - | - | 3,194,202 |
| Issuance of common stock through tender offers | 2,681,730 | 1,295,275 | - | - | - | - | - | - | 3,977,005 |
| Net income for 2010 | - | - | - | - | 1,645,593 | - | - | - | 1,645,593 |
| Appropriation of 2009 earnings (Note 1): | | | | | | | | | |
| Legal reserve | - | - | 254,533 | - | (254,533) | - | - | - | - |
| Special reserve | - | - | - | 509,066 | (509,066) | - | - | - | - |
| Cash dividends | - | - | - | - | (187,966) | - | - | - | (187,966) |
| Capital increased from retained earnings | 1,578,913 | - | - | - | (1,578,913) | - | - | - | - |
| Unrealized gain (loss) on available-for-sale financial assets | - | - | - | - | - | - | - | 111 | 111 |
| Foreign currency translation adjustments | - | - | - | - | - | (131,576) | - | - | (131,576) |
| Ending balance, December 31, 2010 | 23,057,225 | 2,598,127 | 254,533 | 509,066 | 1,660,446 | (58,001) | - | 111 | 28,021,507 |
| Issue common stock through merger | 283,396 | 136,880 | - | - | - | - | - | - | 420,276 |
| Net income for 2011 | - | - | - | - | 814,398 | - | - | - | 814,398 |
| Appropriation of 2010 earnings (Note 2) : | | | | | | | | | |
| Legal reserve | - | - | 164,559 | - | (164,559) | - | - | - | - |
| Special reserve | - | - | - | 387,010 | (387,010) | - | - | - | - |
| Cash dividends | - | - | - | - | (700,218) | - | - | - | (700,218) |
| Capital increased from retained earnings | 350,109 | - | - | - | (350,109) | - | - | - | - |
| Net loss not recognized as pension cost | - | - | - | - | - | - | (33,664) | - | (33,664) |
| Foreign currency translation adjustments | - | - | - | - | - | 57,818 | - | - | 57,818 |
| Adjustment from changes in equity recognized under equity method | - | - | - | 54,778 | - | - | - | (3,204) | 51,574 |
| Adjustment for reserve of default & trading loss to special reserve | - | - | - | 185,184 | - | - | - | - | 185,184 |
| Ending balance, December 31, 2011 | \$ 23,690,730 | 2,735,007 | 419,092 | 1,136,038 | 872,948 | (183) | (33,664) | (3,093) | 28,816,875 |

Note 1 : The remuneration to directors and supervisors and the employee bonuses were \$75,995 and \$56,996 which were deducted from the statement of income, respectively.

Note 2 : The remuneration to directors and supervisors and the employee bonuses were \$45,175 and \$33,882 which were deducted from the statement of income, respectively.

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010
(New Taiwan Dollars in Thousands)

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 814,398 | 1,645,593 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Extraordinary gain | - | (56,927) |
| Depreciation expense | 182,538 | 147,265 |
| Amortization | 31,562 | 21,523 |
| Amortization of held-to-maturity financial assets - non-current | 885 | 111 |
| Reversal of reserve for trading loss, net | - | (78,423) |
| Investment loss (gain) under the equity method | 19,573 | (52,366) |
| Cash dividend received from long-term investments under equity method | 25,749 | 38,056 |
| Loss (gain) on disposal of premises and property | (49) | (1,090) |
| Loss (gain) on disposal of long term investment under equity method | (638) | 603 |
| Investment loss (gain) on available-for-sale financial assets - non-current | (4,586) | - |
| Loss (gain) on valuation of trading securities | 932,920 | (295,882) |
| Net changes of operating assets and liabilities: | | |
| Net changes of operating assets: | | |
| Decrease in financial assets measured at fair value through profit or loss - current | 228,773 | 2,373,038 |
| Decrease (increase) in bonds purchased under resale agreements | 572,225 | (171,061) |
| Decrease (increase) in receivable for securities provided as collateral | 12,220,931 | (2,735,361) |
| Decrease (increase) in refinancing margin | (2,420) | 43,021 |
| Decrease (increase) in receivable on refinancing collateral | 971 | 66,953 |
| Decrease (increase) in receivable for securities borrowing and lending | 1,464 | 10,034 |
| Decrease (increase) in security borrowing margin | (788,858) | (2,834) |
| Decrease (increase) in notes receivable | 769 | (611) |
| Decrease (increase) in accounts receivable | (357,721) | (30,793) |
| Decrease (increase) in prepayments | 32,166 | 36,899 |
| Decrease (increase) in other receivables | 69,302 | 25,431 |
| Decrease (increase) in pledged assets | 494,500 | 36,000 |
| Deferred income tax assets and liabilities, net | 375,038 | 174,048 |
| Decrease (increase) in available-for-sale financial assets - current | - | 68,115 |
| Decrease (increase) in other assets | (7,884) | (45) |
| Brokerage accounts , net | (234,199) | 13,600 |
| Changes in operating assets: | <u>12,605,057</u> | <u>(93,566)</u> |
| Net changes of operating liabilities: | | |
| Increase (decrease) in bonds sold under repurchase agreements | 3,242,946 | (1,087,840) |
| Increase (decrease) in financial liabilities measured at fair value through profit or loss - current | (499,987) | 634,462 |
| Increase (decrease) in guaranty deposited for securities lent | 866,391 | (514,365) |
| Increase (decrease) in proceeds payable from securities lent | 1,063,028 | (539,661) |
| Increase (decrease) in securities lending refundable deposits | 1,269,766 | 1,250,226 |
| Increase (decrease) in notes payable | (23,009) | (20,482) |
| Increase (decrease) in accounts payable | (179,080) | (256,293) |
| Increase (decrease) in advance receipts | 187 | 5,609 |
| Increase (decrease) in receipts under custody | (64,823) | (14,988) |
| Increase (decrease) in other payables | (1,871,368) | (691,459) |
| Increase in accrued pension liabilities - non-current | (8,948) | 327 |
| Increase (decrease) in other financial liabilities | 484,286 | 233,400 |
| Increase (decrease) in guarantee deposits received | 2,058 | 1,355 |
| Increase (decrease) in other liabilities | (12,586) | - |
| Changes in operating liabilities: | <u>4,268,861</u> | <u>(999,709)</u> |
| Net cash provided by (used in) operating activities | <u>18,876,270</u> | <u>275,188</u> |

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CASH FLOWS (CONT'D)
Years Ended December 31, 2011 and 2010
(New Taiwan Dollars in Thousands)

| | <u>2011</u> | <u>2010</u> |
|--|----------------------------|-------------------------|
| Cash flows from investing activities: | | |
| Proceeds from capital reduction of Available-for-sale financial assets | \$ 4,929 | - |
| Repayment from maturity of held-to-maturity financial assets | 500,000 | - |
| Purchase of long term investments under the equity method | (146) | (8,271,882) |
| Proceeds from sale of long term investments under the equity method | - | 21,744 |
| Proceeds from capital reduction of investments under the equity method | 56,100 | 33,264 |
| Purchase of premises and property | (162,024) | (138,372) |
| Proceeds from sale of premises and property | 67 | 1,750 |
| Decrease (increase) in guaranty deposited for business operations | (271,087) | 50 |
| Decrease (increase) in settlement fund | 62,055 | (33,418) |
| Decrease (increase) in refundable deposits | 3,560 | 231,587 |
| Purchase of deferred debits | (32,335) | (16,508) |
| Cash transfer from merge | 205,915 | 3,168,142 |
| Cash payment for merge | (861,861) | - |
| Net cash provided by (used in) investing activities | <u>(494,827)</u> | <u>(5,003,643)</u> |
| Cash flows from financing activities: | | |
| Increase (decrease) in short-term borrowings | (2,647,027) | (54,973) |
| Increase (decrease) in commercial paper payable | (9,058,325) | 2,818,702 |
| Increase in long-term borrowings | - | 3,000,196 |
| Reimburse in long-term borrowings | (4,400,008) | - |
| Cash dividends | (700,218) | (187,966) |
| Net cash provided by (used in) financing activities | <u>(16,805,578)</u> | <u>5,575,959</u> |
| Increase in cash and cash equivalents | 1,575,865 | 847,504 |
| Cash and cash equivalents, beginning of the year | 1,343,507 | 496,003 |
| Cash and cash equivalents, end of the year | <u><u>\$ 2,919,372</u></u> | <u><u>1,343,507</u></u> |
| Supplemental disclosures of cash flows information: | | |
| Cash paid during the year for interest | <u>\$ 227,868</u> | <u>151,550</u> |
| Cash paid during the year for income taxes | <u>\$ 1,543,501</u> | <u>1,100,121</u> |
| Material item not affecting investing and financing activities | | |
| Capital increased from retained earnings | <u>\$ 350,109</u> | <u>1,578,913</u> |
| Issurance of common stock through tender offers | <u>\$ -</u> | <u>3,977,005</u> |
| Account receivable of proceeds from capital reduction of available-for-sale financial assets | <u>\$ -</u> | <u>15,612</u> |

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