



安侯建業聯合會計師事務所

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Independent Auditors' Report

The Board of Directors
Capital Securities Corporation

We have audited the accompanying balance sheets of Capital Securities Corporation as of December 31, 2013 and 2012, January 1, 2012, and the related statements of comprehensive income, changes in equity, and cash flows for the years then ended. The financial report is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial report based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those regulations 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, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial report referred to above present fairly, in all material respects, the financial position of Capital Securities Corporation as of December 31, 2013 and 2012, January 1, 2012, and the results of its financial performance and its cash flows for the years then ended in conformity with Regulations Governing the Preparation of Financial Reports by Securities Firms in the Republic of China.

Taipei, Taiwan, R.O.C.
March 26, 2014

Notice to Readers

The accompanying financial report is intended only to present the financial position, financial performance, and cash flows in accordance with IFRSs endorsed by the FSC and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial report are those generally accepted and applied in the Republic of China.

The independent auditors' report and the accompanying financial report are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language independent auditors' report and financial report, the Chinese version shall prevail.

CAPITAL SECURITIES CORPORATION
BALANCE SHEETS
December 31, 2013 and 2012, January 1, 2012
(New Taiwan Dollars in Thousands, Except Share Data)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012		LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Current Assets							Current Liabilities						
Cash and cash equivalents (Note 6(1))	\$ 2,006,379	3	2,578,602	4	3,093,232	5	Short-term borrowings (Note 6(9))	\$ 2,019,000	3	-	-	1,155,000	2
Financial assets measured at fair value through profit or loss - current (Notes 6(2) and 8)	19,519,949	29	14,419,818	24	14,658,630	24	Commercial paper payable (Note 6(10))	2,299,582	3	-	-	-	-
Available-for-sale financial assets - current (Note 6(2))	-		196,399	-	-	-	Financial liabilities measured at fair value through profit or loss - current (Notes 6(11))	1,343,111	2	1,795,255	3	1,212,796	2
Bonds purchased under resale agreements (Notes 6(3) and 8)	558,394	1	1,731,401	3	1,003,334	2	Bonds sold under repurchase agreements (Note 6(12))	13,115,259	19	11,329,169	19	11,594,102	19
Receivable for securities provided as collateral	17,747,936	26	15,833,530	27	17,696,799	29	Guaranty deposited for short sales	2,366,747	4	2,555,221	4	2,729,685	5
Refinancing margin	190,114	-	13,443	-	4,635	-	Proceeds payable from short sales	3,008,916	5	3,394,642	6	3,253,659	5
Receivable on refinancing collateral	158,152	-	19,038	-	12,718	-	Securities lending refundable deposits	1,779,917	3	1,787,545	3	2,519,992	4
Receivable for securities borrowed	369,830	1	321,586	1	-	-	Notes payable	858	-	1,077	-	865	-
Security borrowing margin	1,288,233	2	1,074,822	2	934,784	1	Accounts payable (Note 6(13))	7,253,187	11	4,597,293	8	4,473,275	7
Notes receivable	8,556	-	9,293	-	5,410	-	Advance receipts	148,287	-	8,631	-	13,145	-
Accounts receivable (Note 6(4))	7,707,100	11	5,117,947	9	6,071,380	10	Receipts under custody	560,640	1	130,490	-	134,379	-
Prepayments	28,066	-	25,371	-	30,874	-	Other payables	735,181	1	755,358	1	818,962	1
Other receivables	28,044	-	141,237	-	68,458	-	Other financial liabilities - current (Note 6(22))	289,377	-	236,897	1	283,343	-
Current income tax assets	22,089	-	58,792	-	148,479	-	Current income tax liability	243,628	-	1,083,329	2	2,314,822	4
Other current assets	1,054,713	2	575,307	1	477,775	1	Provisions - current (Note 6(16))	42,821	-	43,880	-	45,643	-
	<u>50,687,555</u>	<u>75</u>	<u>42,116,586</u>	<u>71</u>	<u>44,206,508</u>	<u>72</u>	Long-term liabilities - current portion (Note 6(14))	-	-	299,881	1	-	-
								<u>35,206,511</u>	<u>52</u>	<u>28,018,668</u>	<u>48</u>	<u>30,549,668</u>	<u>49</u>
Non-current Assets							Non-current Liabilities						
Financial assets measured at fair value through profit or loss - non-current (Notes 6(2) and 8)	208,135	-	207,636	-	238,616	-	Long-term borrowings (Note 6(14))	-	-	-	-	299,859	1
Financial assets measured at cost - non-current (Note 6(2))	636,539	1	646,539	1	646,539	1	Other financial liabilities -non-current (Note 6(22))	1,399,141	2	1,395,831	2	1,769,347	3
Held-to-maturity financial assets - non-current (Notes 6(2) and 8)	-	-	-	-	290,000	-	Deferred income tax liabilities (Note 6(17))	453,340	1	333,804	1	163,820	-
Investments accounted for using equity method (Note 6(5))	3,127,503	5	2,913,425	5	3,073,090	5	Guarantee deposits received	19,008	-	18,110	-	18,567	-
Property and equipment(Notes 6(6) and 8)	5,643,817	8	5,718,992	10	5,988,348	10	Accrued pension liabilities - non-current (Note 6(16))	447,133	1	462,479	1	437,396	1
Investment property (Notes 6(7) and 8)	1,364,191	2	1,387,708	2	1,244,869	2	Other non-current liabilities	51,361	-	71,534	-	163,546	-
Intangible assets (Note 6(8))	3,543,873	5	3,552,699	6	3,573,166	6		<u>2,369,983</u>	<u>4</u>	<u>2,281,758</u>	<u>4</u>	<u>2,852,535</u>	<u>5</u>
Deferred income tax assets (Note 6(17))	783,007	1	907,305	2	909,074	1	Total Liabilities	<u>37,576,494</u>	<u>56</u>	<u>30,300,426</u>	<u>52</u>	<u>33,402,203</u>	<u>54</u>
Other non-current assets (Note 12)	1,629,391	3	1,688,346	3	1,715,190	3	Equity						
	<u>16,936,456</u>	<u>25</u>	<u>17,022,650</u>	<u>29</u>	<u>17,678,892</u>	<u>28</u>	Capital (Note 6(18))	23,690,730	35	23,690,730	40	23,690,730	38
							Capital surplus						
							Premium from stock issuance	1,940,208	3	1,940,208	3	1,940,208	3
							Treasury stock transactions	107,031	-	107,031	-	107,031	-
							Paid-in capital from merger	658,234	1	658,234	1	658,234	1
							Retained earnings						
							Legal reserve	605,958	1	500,532	1	419,092	1
							Special reserve	1,628,318	2	1,281,093	2	1,152,818	2
							Unappropriated earnings (Note 6(17))	1,423,960	2	750,679	1	518,360	1
							Exchange differences on translation of foreign operations	(19,525)	-	(56,638)	-	(183)	-
							Unrealized gain (loss) on available-for-sale financial assets	12,603	-	(32,759)	-	(3,093)	-
								<u>30,047,517</u>	<u>44</u>	<u>28,839,110</u>	<u>48</u>	<u>28,483,197</u>	<u>46</u>
TOTAL ASSETS	<u>\$ 67,624,011</u>	<u>100</u>	<u>59,139,236</u>	<u>100</u>	<u>61,885,400</u>	<u>100</u>	TOTAL LIABILITIES AND EQUITY	<u>\$ 67,624,011</u>	<u>100</u>	<u>59,139,536</u>	<u>100</u>	<u>61,885,400</u>	<u>100</u>

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

CAPITAL SECURITIES CORPORATION
COMPREHENSIVE INCOME STATEMENTS
Years Ended December 31, 2013 and 2012
(New Taiwan Dollars in Thousands, Except Earnings Per Share Data)

	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income:				
Brokerage commissions (Note 6(20))	\$ 2,182,783	45	2,296,821	47
Revenues from securities business money lending	63	-	51	-
Revenue from securities lendings	89,063	2	128,891	3
Underwriting commissions (Note 6(20))	284,510	6	219,239	5
Commissions on wealth management business	16,137	-	775	-
Net gain (loss) on sale of trading securities (Note 6(20))	401,259	8	(324,961)	(7)
Securities management, distribution, and management fees	140,462	3	155,854	3
Interest revenue (Note 6(20))	1,209,365	25	1,230,035	25
Dividend revenue	91,892	2	165,449	3
Net gain on measurement of trading securities at fair value through profit or loss	271,483	5	440,272	9
Net loss on covering of borrowed securities and bonds with resale agreements	(23,325)	-	(18,158)	-
Net loss on measurement of borrowed securities and bonds with resale agreements	(29,973)	(1)	(45,560)	(1)
Net gain on stock warrants issued (Notes 6(20) and 6(22))	244,901	5	596,501	12
Futures commission revenue	112,789	2	79,714	2
Net gain (loss) on derivative instruments - futures (Note 6(22))	977	-	(75,509)	(2)
Net loss on derivative instruments - OTC (Note 6(22))	(245,126)	(5)	(113,356)	(2)
Other operating revenue	136,503	3	147,212	3
	<u>4,883,763</u>	<u>100</u>	<u>4,883,270</u>	<u>100</u>
Expenses:				
Brokerage fees	132,311	3	136,285	3
Brokerage and clearing fees - proprietary trading	7,306	-	6,711	-
Clearing and exchange fees - refinancing	2,136	-	2,815	-
Clearing and exchange fees - underwriting	3,008	-	2,835	-
Financial cost	133,818	3	149,433	3
Loss on borrowed securities	-	-	213	-
Securities commission expense - introducing brokers	2,275	-	1,875	-
Other operating expenditure	5,696	-	9,287	-
Employee benefits expenses (Note 6(20))	2,220,464	45	2,380,456	49
Depreciation and amortization expenses (Note 6(20))	194,024	4	219,915	5
Other operating expenses (Note 6(20))	1,167,418	24	1,146,370	23
	<u>3,868,456</u>	<u>79</u>	<u>4,056,195</u>	<u>83</u>
Other income and expenses :				
Share of profits of associates and joint ventures (Note 6(5))	252,162	5	165,089	3
Other gain and loss (Note 6(20))	380,578	8	318,335	7
	<u>632,740</u>	<u>13</u>	<u>483,424</u>	<u>10</u>
Income before tax	1,648,047	34	1,310,499	27
Income tax expense (Note 6(17))	(176,263)	(4)	(210,437)	(4)
Net income	<u>\$ 1,471,784</u>	<u>30</u>	<u>1,100,062</u>	<u>23</u>
Other comprehensive income				
Exchange differences on translation of foreign operations	42,173	1	(66,955)	(1)
Unrealized gain (loss) on available-for-sale financial assets, net	29,598	1	(29,598)	(1)
Actuarial gain (loss) on defined benefit plans, net (Note 6(16))	13,882	-	(36,045)	(1)
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	14,785	-	(1,403)	-
Income tax benefit (expense) related to components of other comprehensive income (Note 6(17))	(7,601)	-	11,563	-
Other comprehensive income for this period, net of income tax	<u>\$ 92,837</u>	<u>2</u>	<u>(122,438)</u>	<u>(3)</u>
Total Comprehensive income for this period	<u>1,564,621</u>	<u>32</u>	<u>977,624</u>	<u>20</u>
Basic earnings per share(dollar) (Note 6(19))	<u>\$ 0.62</u>		<u>0.46</u>	
Dilutive earnings per share(dollar) (Note 6(19))	<u>\$ 0.62</u>		<u>0.46</u>	

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CHANGES IN EQUITY
Years Ended December 31, 2013 and 2012
(New Taiwan Dollars in Thousands)

	Retained earnings				Equity - other items			Total
	Capital	Legal	Special	Unappropriated	Exchange differences	Unrealized gain (loss)	Total	
	stock	reserve	reserve	earnings	on translation of	on available-for-sale		
Capital stock	surplus	reserve	reserve	earnings	foreign operations	financial assets	Total	
Beginning balance, January 1, 2012	\$ 23,690,730	2,705,473	419,092	1,152,818	518,360	(183)	(3,093)	28,483,197
Net income	-	-	-	-	1,100,062	-	-	1,100,062
Other comprehensive income	-	-	-	-	(36,317)	(56,455)	(29,666)	(122,438)
Total comprehensive income	-	-	-	-	1,063,745	(56,455)	(29,666)	977,624
Appropriation of earnings (Note 1) :								
Legal reserve	-	-	81,440	-	(81,440)	-	-	-
Special Reserve	-	-	-	162,880	(162,880)	-	-	-
Cash dividends	-	-	-	-	(592,268)	-	-	(592,268)
Reversal of special reserve for deduction of stockholders' equity	-	-	-	(20,951)	20,951	-	-	-
Indemnification to stockholders due to merger (Note 12)	-	-	-	-	(15,789)	-	-	(15,789)
Adjustment for reserve of default & trading loss to special reserve from subsidiaries	-	-	-	(13,654)	-	-	-	(13,654)
Ending balance, December 31, 2012	23,690,730	2,705,473	500,532	1,281,093	750,679	(56,638)	(32,759)	28,839,110
Net income	-	-	-	-	1,471,784	-	-	1,471,784
Other comprehensive income	-	-	-	-	10,362	37,113	45,362	92,837
Total comprehensive income	-	-	-	-	1,482,146	37,113	45,362	1,564,621
Appropriation of earnings (Note 2) :								
Legal reserve	-	-	105,426	-	(105,426)	-	-	-
Special Reserve	-	-	-	210,851	(210,851)	-	-	-
Cash dividends	-	-	-	-	(355,361)	-	-	(355,361)
Special reserve for deduction of stockholders' equity	-	-	-	136,374	(136,374)	-	-	-
Indemnification to stockholders due to merger (Note 12)	-	-	-	-	(853)	-	-	(853)
Ending balance, December 31, 2013	\$ 23,690,730	2,705,473	605,958	1,628,318	1,423,960	(19,525)	12,603	30,047,517

Note 1 : The remuneration to directors and supervisors and the employee bonuses were \$25,474 and \$19,105 which were deducted from the statement of income, respectively.

Note 2 : The remuneration to directors and supervisors and the employee bonuses were \$15,284 and \$11,463 which were deducted from the statement of income, respectively.

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012
(New Taiwan Dollars in Thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income before tax	\$ 1,648,047	1,310,499
Adjustments for:		
Income and expenses items with no effect on cash flows:		
Depreciation expense	161,704	181,682
Amortization expense	32,320	38,233
Net gain on financial assets and liabilities measured at fair value through profit or loss	(271,483)	(440,272)
Interest expense	133,818	149,433
Dividend received from investments under equity method	95,043	149,497
Amortization of discount on commercial paper payable - long term	-	22
Share of profits of associates and joint ventures accounted for using equity method	(252,162)	(165,089)
Loss (gain) on disposal of property and equipment	(1,345)	511
Gain on disposal of investment under equity method	-	(143)
Total income and expense items with no effect on cash flows	<u>(102,105)</u>	<u>(86,126)</u>
Changes of assets and liabilities from operating activities:		
Net changes of assets from operating activities:		
Decrease (increase) in financial assets measured at fair value through profit or loss	(4,828,847)	709,764
Decrease (increase) in available-for-sale financial assets	225,997	(225,997)
Decrease (increase) in bonds purchased under resale agreements	1,173,007	(728,067)
Decrease (increase) in receivable for securities provided as collateral	(1,914,407)	1,863,269
Increase in refinancing margin	(176,671)	(8,808)
Increase in receivable on refinancing collateral	(139,113)	(6,320)
Increase in receivable for securities borrowed	(48,244)	(321,586)
Increase in security borrowing margin	(213,411)	(140,038)
Decrease (increase) in notes receivable	737	(3,883)
Decrease (increase) in accounts receivable	(2,589,153)	953,433
Decrease (increase) in prepayments	(2,695)	5,503
Decrease (increase) in other receivables	113,193	(72,779)
Decrease in current income tax assets	36,703	89,687
Increase in guaranty deposited for business operations	(14,300)	(259,656)
Decrease in settlement fund	8,074	240,595
Decrease (increase) in other current assets	(479,406)	49,696
Decrease (increase) in other non-current assets	19,080	(138,482)
Total net changes of assets from operating activities:	<u>(8,829,456)</u>	<u>2,006,331</u>
Net changes of liabilities from operating activities:		
Increase (decrease) in financial liabilities measured at fair value through profit or loss	(452,144)	582,459
Increase (decrease) in bonds sold under repurchase agreements	1,786,090	(264,933)
Decrease in guaranty deposited for short sales	(188,474)	(174,464)
Increase (decrease) in proceeds payable from short sales	(385,726)	140,983
Decrease in securities lending refundable deposits	(7,628)	(732,447)
Increase (decrease) in notes payable	(219)	212
Increase in accounts payable	2,655,894	124,018
Increase (decrease) in advance receipts	139,656	(4,514)
Increase (decrease) in receipts under custody	430,150	(3,889)
Increase (decrease) in other payables	36,815	(81,975)
Increase (decrease) in other financial liabilities - current	52,480	(46,446)
Increase (decrease) in other financial liabilities - non-current	3,310	(373,516)
Increase (decrease) in guarantee deposits received	898	(457)
Decrease in accrued pension liabilities - non-current	(1,464)	(10,962)
Decrease in provision - current	(1,059)	(1,763)
Decrease in other non-current liabilities	(20,173)	(92,102)
Total net changes of liabilities from operating activities	<u>4,048,406</u>	<u>(939,706)</u>
Total net changes of assets and liabilities from operating activities	<u>(4,781,050)</u>	<u>1,066,625</u>
Total Cash generated from adjustment items	<u>(4,883,155)</u>	<u>980,499</u>

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CASH FLOWS (CONT'D)
Years Ended December 31, 2013 and 2012
(New Taiwan Dollars in Thousands)

	<u>2013</u>	<u>2012</u>
Cash generated by operating activities	\$ (3,235,108)	2,290,998
Interest paid	(190,810)	(131,062)
Income tax paid	(779,732)	(1,258,614)
Net cash provided by (used in) operating activities	<u>(4,205,650)</u>	<u>901,322</u>
Cash flows from investing activities:		
Proceeds from capital reduction of investments under the equity method	-	93,387
Repayment from maturity of held-to-maturity financial assets	-	290,000
Proceeds from capital reduction of financial assets measured at cost	10,000	-
Increase of deferred debits	(2,188)	(3,707)
Acquisitions of property and equipment	(38,087)	(34,655)
Proceeds from disposal of property and equipment	19,600	151
Acquisitions of intangible assets	(19,238)	(13,740)
Acquisitions of investment property	-	(120)
Net cash provided by (used in) investing activities	<u>(29,913)</u>	<u>331,316</u>
Cash flows from financing activities:		
Increase(decrease) in short-term borrowings	2,019,000	(1,155,000)
Decrease in long-term liabilities - current portion	(299,881)	-
Increase in commercial paper payable	2,299,582	-
Cash dividends	(355,361)	(592,268)
Net cash provided by (used in) financing activities	<u>3,663,340</u>	<u>(1,747,268)</u>
Decrease in cash and cash equivalents	(572,223)	(514,630)
Cash and cash equivalents, beginning of the year	<u>2,578,602</u>	<u>3,093,232</u>
Cash and cash equivalents, end of the year	<u><u>\$ 2,006,379</u></u>	<u><u>2,578,602</u></u>

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