

**CAPITAL SECURITIES CORPORATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

**Address: 4<sup>th</sup> Fl. No. 101, Sung-Jen Road, Taipei, Taiwan, R.O.C.**  
**Telephone: 886-2-8789-8888**

**CAPITAL SECURITIES CORPORATION**  
**FINANCIAL STATEMENTS**  
**Table of Contents**

<u>Contents</u>	<u>Page</u>
. Cover Page	1
. Table of Contents	2
. Independent Auditors' Report	3
. Balance Sheets	4
. Statements of Income	5
. Statements of Changes in Stockholders' Equity	6
. Statements of Cash Flows	7-8
. Notes to Financial Statements	
1 Overview	9
2 Summary of Significant Accounting Policies	9-21
3 Reasons for and Effect of Accounting Changes	21
4 Summary of Major Accounts	21-53
5 Related Party Transactions	53-56
6 Pledged Assets	57
7 Significant Commitments and Contingencies	57-59
8 Significant Catastrophic Loss	59
9 Significant Subsequent Events	59
10 Others	59-63
11 Disclosures required	
(1) Information on Significant Transaction	64
(2) Information of Reinvestment Business	64
(3) Information on Investments in China	65
(4) Disclosure Required for Securities Firm Investing in Countries or Regions without Securities Authority	65-66
12 Business Segment Financial Information	66



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)  
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,  
Xinyi Road, Taipei, 11049, Taiwan, R.O.C.

Telephone 電話 + 886 (2) 8101 6666  
Fax 傳真 + 886 (2) 8101 6667  
Internet 網址 www.kpmg.com.tw

## 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, 2010 and 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We have not audited the financial statements of the investee company, Taiwan International Securities Corporation, the financial statements were audited by other CPA. Thus, our opinion on the financial statements of Capital Securities Corporation regarding the balance of financial statements of Taiwan International Securities Corporation was based on other CPA's independent auditors' report. As of December 31, 2010, long-term investments under equity method in Taiwan International Securities Corporation amounted to \$12,189,081, the value to the total assets was 19.60%. In 2010, investment loss in Taiwan International Securities Corporation amounted to \$56,525, the absolute value to the income before tax was 2.50%.

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 statements referred to above present fairly, in all material respects, the financial position of Capital Securities Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulations on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.



As described in the first paragraph, the financial statements of Taiwan International Securities Corporation as of December 31, 2010 were audited by other CPA, for which a modified unqualified opinion was issued on March 17, 2011, and the explanatory paragraph was as follows. As described in Note 4(5), Taiwan International Securities Corporation took bonds purchased under resale agreements guaranteed by structure notes which was obtained from Taiwan International Investment Management Co, Ltd. with Hui Pu Investment Co., Ltd and other investment companies. As of December 31, 2010, the above structure notes were all matured and fully repaid or were under early termination. Hui Pu Investment Co., Ltd. and other investment companies have already repaid the bonds purchased under resale agreements and the capital loss of Taiwan International Securities Corporation. The controversies of the management of Taiwan International Securities Corporation and its board of directors have resolved the merger with Capital Securities Corporation with effective date of March 9, 2011. Some employees of Taiwan International Securities Corporation may have sold the privately placed products issued by GVEC (Genesis Voyager Equity Corporation), while some investors have already instituted proceedings against Taiwan International Securities Corporation and requested certain amount of compensation. The result is still awaiting court judgment and at the present moment the possible loss remains uncertain.

Please refer to the consolidated financial statements of Capital Securities Corporation as of December 31, 2010 and 2009, which have issued a modified unqualified opinion and an unqualified opinion and, respectively.

KPMG

Taipei, Taiwan, R.O.C.  
March 18, 2011

**Notice to Readers**

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the 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.

**CAPITAL SECURITIES CORPORATION**  
**BALANCE SHEETS**  
December 31, 2010 and 2009  
(New Taiwan Dollars in Thousands, Except Share Data)

ASSETS	December 31, 2010		December 31, 2009		LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Current Assets</b>					<b>Current Liabilities</b>				
Cash and cash equivalents (Notes 2 and 4(1))	\$ 1,343,507	2	496,003	1	Short-term borrowings (Note 4(10))	\$ 1,975,027	3	2,030,000	4
Financial assets measured at fair value through profit or loss - current (Notes 2, 4(2), 4(21) and 5)	15,065,034	25	16,880,839	34	Commercial paper payable (Note 4(11))	7,308,325	12	4,489,623	10
Bonds purchased under resale agreements (Notes 2, 4(3) and 6)	1,575,559	3	1,404,498	3	Bonds sold under repurchase agreements (Notes 4(13) and 5)	8,351,156	14	9,438,996	19
Receivable for securities provided as collateral (net of allowance for doubtful accounts)	20,003,544	32	17,268,183	35	Financial liabilities measured at fair value through profit or loss - current (Notes 4(12) and 4(21))	1,712,783	3	1,078,321	3
Refinancing margin	-	-	43,021	-	Guaranty deposited for securities lent	1,580,004	3	2,094,369	4
Receivable on refinancing collateral	11,845	-	78,798	-	Proceeds payable from securities lent	1,870,818	3	2,410,479	5
Receivable for securities lending and borrowing	1,464	-	11,498	-	Securities lending refundable deposits	1,250,226	2	-	-
Security borrowing margin	145,926	-	143,092	-	Notes payable	901	-	21,383	-
Notes receivable	3,064	-	2,353	-	Accounts payable	258,052	-	514,345	1
Accounts receivable (Notes 4(4) and 5)	760,609	1	726,673	1	Advance receipts	12,958	-	7,349	-
Prepayments	16,075	-	52,295	-	Receipts under custody	89,414	-	104,402	-
Other receivables	130,832	-	95,781	-	Other payables (Notes 2 and 4(14))	3,094,552	5	3,785,588	8
Pledged assets - current (Note 6)	359,500	1	395,500	1	Deferred income tax liabilities - current (Notes 2 and 4(17))	-	-	97,926	-
Deferred income tax assets - current (Notes 2 and 4(17))	15,114	-	-	-	Long-term liabilities-current portion (Note 4(15))	-	-	599,671	1
	<u>39,432,073</u>	<u>64</u>	<u>37,598,534</u>	<u>75</u>	Other financial liabilities - current (Note 4(21))	302,513	-	619,494	1
						<u>27,806,729</u>	<u>45</u>	<u>27,291,946</u>	<u>56</u>
<b>Funds and Long-Term Investments</b>					<b>Long-Term Liabilities</b>				
Long-term investments under equity method (Notes 2 and 4(5))	14,957,827	24	2,920,703	6	Long-term borrowings (Note 4(15))	4,699,867	8	1,100,000	3
Available-for-sale financial assets - non-current (Notes 2 and 4(2))	50,558	-	371,597	1	Other financial liabilities - non-current (Note 4(21))	1,265,891	2	715,510	1
Held-to-maturity financial assets - non-current (Notes 2, 4(2) and 6)	790,885	1	790,996	2	Other long-term liabilities	27,698	-	27,698	-
Financial assets measured at fair value through profit or loss - non-current (Notes 2, 4(2), 4(21) and 6)	259,153	-	328,272	1		<u>5,993,456</u>	<u>10</u>	<u>1,843,208</u>	<u>4</u>
	<u>16,058,423</u>	<u>25</u>	<u>4,411,568</u>	<u>10</u>	<b>Other Liabilities</b>				
<b>Premises and Property (Notes 2, 4(6) and 6)</b>					Reserve for default loss (Note 2)	200,351	-	200,351	-
Land	2,918,738	5	2,940,703	6	Reserve for trading loss (Note 2)	18,893	-	97,316	-
Buildings	1,600,896	3	1,607,918	3	Guarantee deposits received (Note 5)	7,163	-	5,808	-
Equipment	543,782	1	509,792	1	Accrued pension liabilities - non-current (Notes 2 and 4(16))	19,493	-	23,908	-
Prepayment for equipment	22,051	-	-	-		<u>245,900</u>	<u>-</u>	<u>327,383</u>	<u>-</u>
Leasehold improvements	220,430	-	222,457	1	Brokerage accounts, net (Note 4(9))	125,844	-	112,244	-
	<u>5,305,897</u>	<u>9</u>	<u>5,280,870</u>	<u>11</u>	<b>Total Liabilities</b>	<u>34,171,929</u>	<u>55</u>	<u>29,574,781</u>	<u>60</u>
Less: Accumulated depreciation	(1,284,818)	(2)	(1,228,048)	(3)	<b>Stockholders' Equity</b>				
	<u>4,021,079</u>	<u>7</u>	<u>4,052,822</u>	<u>8</u>	Common stock, par value \$10 per share, 3,000,000 thousand shares authorized, 2,305,723 and 1,610,786 thousand shares issued and outstanding, respectively (Note 4(18))	23,057,225	37	16,107,860	33
<b>Intangible Assets</b>					<b>Capital surplus</b>				
Deferred pension cost	2,729	-	7,471	-	Premium from stock issuance	1,803,328	3	2,573	-
Operation franchise (Notes 2 and 4(7))	389,999	1	389,999	1	Treasury stock transactions (Note 4(19))	107,031	-	107,031	-
	<u>392,728</u>	<u>1</u>	<u>397,470</u>	<u>1</u>	Long-term investments	29,534	-	29,534	-
<b>Other Assets</b>					Paid-in capital from merger (Note 1)	658,234	1	658,234	2
Guaranty deposited for business operations	83,250	-	83,300	-	<b>Retained earnings</b>				
Settlement fund	303,995	-	270,577	1	Legal reserve	254,533	-	-	-
Refundable deposits	71,738	-	298,025	1	Special reserve (Note 2)	509,066	1	-	-
Deferred debits	39,023	-	44,038	-	Unappropriated earnings (Notes 4(17) and 4(18))	1,660,446	3	2,545,331	5
Leased assets (net of accumulated depreciation) (Notes 2 and 6)	676,898	1	654,708	1	Cumulative translation adjustments (Note 2)	(58,001)	-	73,575	-
Deferred income tax assets - non-current (Notes 2 and 4(17))	1,113,886	2	1,287,579	3	Unrealized gain or loss on financial instruments	111	-	-	-
Others (net of allowance for doubtful accounts) (Notes 2 and 4(8))	343	-	298	-	<b>Total Stockholders' Equity</b>	<u>28,021,507</u>	<u>45</u>	<u>19,524,138</u>	<u>40</u>
	<u>2,289,133</u>	<u>3</u>	<u>2,638,525</u>	<u>6</u>	<b>Significant commitments and contingencies</b>				
<b>TOTAL ASSETS</b>	<u>\$ 62,193,436</u>	<u>100</u>	<u>49,098,919</u>	<u>100</u>	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 62,193,436</u>	<u>100</u>	<u>49,098,919</u>	<u>100</u>

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

**CAPITAL SECURITIES CORPORATION**  
**STATEMENTS OF INCOME**  
Years Ended December 31, 2010 and 2009  
(New Taiwan Dollars in Thousands, Except Earnings Per Share Data)

	2010		2009	
	Amount	%	Amount	%
<b>Revenues:</b>				
Brokerage commissions	\$ 2,590,253	40	2,882,548	38
Underwriting commissions	426,176	6	141,695	2
Gain on sale of trading securities - proprietary trading	260,126	4	1,126,283	15
Gain on sale of trading securities - underwriting	74,748	1	29,206	-
Gain on sale of trading securities - hedging	-	-	422,991	6
Securities management, distribution, and management fees	72,853	1	73,210	1
Interest revenue	1,481,965	22	1,146,717	15
Dividend revenue	121,824	2	85,632	1
Gain on valuation of trading securities	295,882	4	909,672	12
Gain on valuation of borrowed securities and bonds with resale agreements	13,812	-	-	-
Gain on stock warrants issued (Note 4(21))	686,112	10	143,475	2
Futures commission revenue (Note 5)	97,373	1	115,442	2
Other operating revenue	303,312	5	170,220	2
Non-operating revenue (Note 5)	207,912	3	228,438	3
Investment income under the equity method (Note 4(5))	52,366	1	111,826	1
	6,684,714	100	7,587,355	100
<b>Expenses:</b>				
Brokerage fees	168,003	3	181,039	3
Brokerage and clearing fees - proprietary trading	10,443	-	7,521	-
Clearing and exchange fees - refinancing	2,058	-	2,112	-
Clearing and exchange fees - underwriting	4,043	-	3,259	-
Loss on sale of trading securities - hedging	154,657	3	-	-
Interest expense (Note 5)	151,652	2	98,960	1
Loss on covering of borrowed securities and bonds with resale agreements	9,055	-	65,665	1
Loss on valuation of borrowed securities and bonds with resale agreements	-	-	58,448	1
Loss on borrowed securities	10,055	-	9,169	-
Stock warrant issuance expense	51,323	1	33,745	1
Securities commission expense (Note 5)	263	-	-	-
Loss on derivative financial instruments - futures (Note 4(21))	19,325	-	21,765	-
Loss on derivative financial instruments - OTC (Note 4(21))	435,927	7	344,875	5
Operating expenses (Note 5)	3,362,670	50	3,364,042	44
Other operating expenses	23,776	-	22,056	-
Non-operating expenses	23,020	-	25,905	-
	4,426,270	66	4,238,561	56
Continuing operations' income before tax	2,258,444	34	3,348,794	44
Income tax expense (Notes 2 and 4(17))	658,801	10	800,967	10
Income from continuing operations, Net of Tax	1,599,643	24	2,547,827	34
Loss from discontinued operations, Net of Tax	(1,299)	-	(2,496)	-
( less income tax expense \$0 and \$1,151)(Note 10(3))				
Net income (before extraordinary gain)	1,598,344	24	2,545,331	34
Extraordinary gain, Net of Tax (less income tax expense \$9,678)(Notes 2 - 4(2) and 10(5))	47,249	1	-	-
Net income	\$ 1,645,593	25	2,545,331	34
	Before Tax	After Tax	Before Tax	After Tax
<b>Basic earnings per share(dollar)(Note 4(20))</b>				
Income from continuing operations	\$ 1.10	0.78	2.08	1.58
Loss from discontinued operations	-	-	-	-
Extraordinary gain	0.03	0.02	-	-
Net income	\$ 1.13	0.80	2.08	1.58
<b>Basic earnings per share(dollar)-retroactively stated(Note 4(20))</b>				
Income from continuing operations			1.92	1.46
Loss from discontinued operations			-	-
Extraordinary gain			-	-
Net income			1.92	1.46
<b>Dilutive earnings per share(dollar) (Note 4(20))</b>				
Income from continuing operations	\$ 1.10	0.78	2.07	1.58
Loss from discontinued operations	-	-	-	-
Extraordinary gain	0.03	0.02	-	-
Net income	\$ 1.13	0.80	2.07	1.58
<b>Dilutive earnings per share(dollar)-retroactively stated(Note 4(20))</b>				
Income from continuing operations			1.91	1.46
Loss from discontinued operations			-	-
Extraordinary gain			-	-
Net income			1.91	1.46

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

**CAPITAL SECURITIES CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
Years Ended December 31, 2010 and 2009  
(New Taiwan Dollars in Thousands)

	Retained earnings				Shareholder's equity - other items			Total	
	Capital stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulatively translation adjustments	Unrealized gain (loss) on financial instruments		Treasury stock
Beginning balance, January 1, 2009	\$ 16,267,870	845,050	1,823,985	3,647,970	(5,592,642)	113,007	1,400	(115,044)	16,991,596
Capital surplus to offset accumulated deficit	-	(120,687)	-	-	120,687	-	-	-	-
Legal reserve to offset accumulated deficit	-	-	(1,823,985)	-	1,823,985	-	-	-	-
Special reserve to offset accumulated deficit	-	-	-	(3,647,970)	3,647,970	-	-	-	-
Retirement of treasury stock	(160,010)	44,966	-	-	-	-	-	115,044	-
Net income for 2009	-	-	-	-	2,545,331	-	-	-	2,545,331
Non-subscription of newly issued investee shares according to ownership	-	28,043	-	-	-	-	-	-	28,043
Unrealized gain (loss) on available-for-sale	-	-	-	-	-	-	(1,400)	-	(1,400)
Foreign currency translation adjustments	-	-	-	-	-	(39,432)	-	-	(39,432)
<b>Ending balance, December 31, 2009</b>	<b>16,107,860</b>	<b>797,372</b>	<b>-</b>	<b>-</b>	<b>2,545,331</b>	<b>73,575</b>	<b>-</b>	<b>-</b>	<b>19,524,138</b>
Issue common stock through merger	2,688,722	505,480	-	-	-	-	-	-	3,194,202
Issuance of common stock through tender offer	2,681,730	1,295,275	-	-	-	-	-	-	3,977,005
Net income for 2010	-	-	-	-	1,645,593	-	-	-	1,645,593
Appropriation of 2009 earnings (Note) :									-
Legal reserve	-	-	254,533	-	(254,533)	-	-	-	-
Special Reserve	-	-	-	509,066	(509,066)	-	-	-	-
Cash dividends	-	-	-	-	(187,966)	-	-	-	(187,966)
Capital increase from retained earnings	1,578,913	-	-	-	(1,578,913)	-	-	-	-
Unrealized gain (loss) on available-for-sale	-	-	-	-	-	-	111	-	111
Foreign currency translation adjustments	-	-	-	-	-	(131,576)	-	-	(131,576)
<b>Ending balance, December 31, 2010</b>	<b>\$ 23,057,225</b>	<b>2,598,127</b>	<b>254,533</b>	<b>509,066</b>	<b>1,660,446</b>	<b>(58,001)</b>	<b>111</b>	<b>-</b>	<b>28,021,507</b>

Note : 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.

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

**CAPITAL SECURITIES CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2010 and 2009**  
**(New Taiwan Dollars in Thousands)**

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,645,593	2,545,331
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Extraordinary gain	(56,927)	-
Depreciation expense	147,265	150,861
Amortization	21,523	15,189
Amortization of held-to-maturity financial assets - non-current	111	108
Provision for (reversal of) reserve for trading loss, net	(78,423)	95,509
Investment income under the equity method	(52,366)	(111,826)
Cash dividend received from long-term investments under equity method	38,056	53,944
Loss (gain) on disposal of premises and property	(1,090)	91
Loss (gain) on disposal of long term investment under equity method	603	(6,517)
Investment loss on available-for-sale financial assets	-	11,143
Gain on valuation of trading securities	(295,882)	(909,672)
<b>Net changes of operating assets and liabilities:</b>		
<b>Net changes of operating assets:</b>		
Decrease in financial assets measured at fair value through profit or loss - current	2,373,038	2,502,462
Increase in bonds purchased under resale agreements	(171,061)	(1,402,498)
Increase in receivable for securities provided as collateral	(2,735,361)	(9,896,562)
Decrease (increase) in refinancing margin	43,021	(43,021)
Decrease (increase) in receivable on refinancing collateral	66,953	(67,909)
Decrease (increase) in receivable for securities borrowing and lending	10,034	(11,498)
Decrease (increase) in security borrowing margin	(2,834)	24,617
Increase in notes receivable	(611)	(427)
Increase in accounts receivable	(30,793)	(337,174)
Decrease in prepayments	36,899	4,596
Decrease in other receivables	25,431	1,942
Decrease in pledged assets	36,000	263,600
Deferred income tax assets and liabilities, net	174,048	349,741
Decrease in available-for-sale financial assets - current	68,115	26,380
Decrease (increase) in other assets	(45)	64
Brokerage accounts , net	13,600	123,040
<b>Changes in operating assets:</b>	<u>(93,566)</u>	<u>(8,462,647)</u>
<b>Net changes of operating liabilities:</b>		
Decrease in bonds sold under repurchase agreements	(1,087,840)	(5,242,672)
Increase in financial liabilities measured at fair value through profit or loss - current	634,462	765,465
Increase (decrease) in guaranty deposited for securities lent	(514,365)	1,161,951
Increase (decrease) in proceeds payable from securities lent	(539,661)	1,307,762
Increase in securities lending refundable deposits	1,250,226	-
Decrease in notes payable	(20,482)	(4,292)
Increase (decrease) in accounts payable	(256,293)	283,577
Increase in advance receipts	5,609	686
Increase (decrease) in receipts under custody	(14,988)	56,575
Increase (decrease) in other payables	(691,459)	839,218
Increase in accrued pension liabilities - non-current	327	282
Increase in other financial liabilities	233,400	617,399
Increase (decrease) in guarantee deposits received	1,355	(1,852)
<b>Changes in operating liabilities:</b>	<u>(999,709)</u>	<u>(215,901)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>275,188</u>	<u>(6,834,387)</u>



**CAPITAL SECURITIES CORPORATION**  
**STATEMENTS OF CASH FLOWS (CONT'D)**  
**Years Ended December 31, 2010 and 2009**  
**(New Taiwan Dollars in Thousands)**

	<u>2010</u>	<u>2009</u>
<b>Cash flows from investing activities:</b>		
Purchase of long term investments under the equity method	\$ (8,271,882)	(28,127)
Proceeds from sale of long term investments under the equity method	21,744	22,756
Proceeds from capital reduction of investments under the equity method	33,264	-
Purchase of premises and property	(138,372)	(48,841)
Proceeds from sale of premises and property	1,750	-
Purchase of deferred debits	(16,508)	(27,543)
Decrease (increase) in guaranty deposited for business operations	50	(9,300)
Decrease (increase) in settlement fund	(33,418)	19,019
Decrease (increase) in refundable deposits	231,587	(1,450)
Cash transfer from merge (Note 10(5))	3,168,142	-
<b>Net cash provided used in investing activities</b>	<u>(5,003,643)</u>	<u>(73,486)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	(54,973)	1,520,000
Increase in commercial paper payable	2,818,702	4,489,623
Increase in long-term borrowings	3,000,196	587,855
Cash dividends	(187,966)	-
<b>Net cash provided by financing activities</b>	<u>5,575,959</u>	<u>6,597,478</u>
Increase (decrease) in cash and cash equivalents	847,504	(310,395)
Cash and cash equivalents, beginning of the year	496,003	806,398
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 1,343,507</u>	<u>496,003</u>
<b>Supplemental disclosures of cash flows information:</b>		
Cash paid during the year for interest	<u>\$ 151,550</u>	<u>109,570</u>
Cash paid during the year for income taxes	<u>\$ 1,100,121</u>	<u>32,762</u>
<b>Material item not affecting investing and financing activities</b>		
Long-term liabilities - current portion	<u>\$ -</u>	<u>599,671</u>
Capital increase from retained earnings	<u>\$ 1,578,913</u>	<u>-</u>
Issuance of common stock through tender offer	<u>\$ 3,977,005</u>	<u>-</u>
Account receivable of proceeds from capital reduction of available-for-sale financial assets - non-current	<u>\$ 15,612</u>	<u>-</u>

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

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
**(Amounts expressed in thousands of New Taiwan Dollars, unless otherwise stated)**

**1. OVERVIEW**

Capital Securities Corporation (the "Company") began to set up its operation on March 12, 1988 and was registered on June 21, 1988. The Company acquired Hung Tai Securities Co., Ltd., on October 31, 1993, and Kaosheng Securities, Shih Shin Securities, and Hai Shan Securities on December 25, 2000, and An-Tie Securities Finance Co., Ltd. on March 1, 2010. As of December 31, 2010, the Company has 39 branches nationwide.

The Company is authorized to conduct the following businesses:

- (1) Underwriting of marketable securities;
- (2) Trading of marketable securities on a proprietary basis on stock exchange;
- (3) Brokerage of marketable securities on stock exchange;
- (4) Trading of marketable securities at the Company's branches;
- (5) Brokerage of marketable securities at the Company's branches;
- (6) Securities lending;
- (7) Securities registration agency services;
- (8) Dealership of foreign marketable securities;
- (9) Short-term bills service;
- (10) Accessory services of futures trading;
- (11) Futures trading on a proprietary basis;
- (12) Securities business money lending;
- (13) Managing the unexpended balance of clients' securities accounts with their authorization; and
- (14) Trust business;
- (15) Other relevant services as approved by the authority in charge.

As of December 31, 2010 and 2009, the numbers of employees were 1,966 and 1,853, respectively.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is in consistent with the Chinese language financial statements from which it is derived.

The financial statements of the Company were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Business Entity Accounting Act, Regulations on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China. Summary of significant accounting policies were as follows:

**(1) Business Combinations**

The Company adopted the ROC Statement of Financial Accounting Standards (“SFAS”) No. 25 “Business Combinations” for merger transactions.

**(2) Principles of Classifying Assets and Liabilities as Current and Non-Current**

Cash or cash equivalents that are not restricted in use, assets held for the purpose of trade, or assets that will be held short-term and are expected to be converted to cash within 12 months of the balance sheet date are listed as current assets; otherwise, they are listed as non-current assets. Liabilities that must be fully liquidated within 12 months after the balance sheet date are listed as current liabilities; otherwise, they are listed as non-current liabilities.

**(3) Accounting Estimates**

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

**(4) Asset Impairment**

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

A cash-generating unit to which goodwill has been allocated shall be tested for impairment at least annually and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(5) Compilation Basis for the Statements of Cash Flows**

Statement of cash flows is compiled on cash and cash equivalents. Cash equivalents are defined as highly liquid short-term investments readily convertible into known amounts of cash and with maturities within three months. Interest rate fluctuations have little effect on the values of these investments.

**(6) Financial Assets**

Financial assets held by the Company are classified into financial assets measured at fair value through profit or loss and available-for-sale financial assets.

Financial instruments held by the Company are recorded on trading date and initially recognized at fair value with transaction costs, except for those held for trading purpose, which are initially recognized at fair value.

Subsequent to their initial recognition, the financial instruments held by the Company are classified according to the purpose of holding as follows:

i Financial assets measured at fair value through profit or loss:

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. These financial assets should be classified as current and non-current according to liquidity. Non-current financial assets should be reclassified under funds and investments as financial assets measured at fair value through profit or loss- non-current. Financial assets are classified as held for trading as follows:

- (i) Financial assets acquired principally for the purpose of selling in the near term.
- (ii) Assets that are part of a group of distinct financial product portfolios under comprehensive management, where there is evidence that in the near term the group is in fact being managed for short-term profit.
- (iii) Derivative financial assets.

Financial assets held for trading should be stated under their respective categories, according to trading purpose, as securities, open-ended funds and money-market instruments held through a brokerage, trading securities, futures margin-proprietary fund, and financial derivatives etc. Trading securities refers to securities purchased by a dealer or acquired by an underwriter on a firm commitment basis that have not yet been resold.

Financial assets measured at fair value through profit or loss should be measured at fair value. Except for holdings in emerging stocks, which are measured at cost, fair value refers to the closing price on the balance sheet date. For open-ended funds, fair value refers to the net asset value of the fund on the balance sheet date.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

When stock dividends or new shares issued out of a capital increase from capital reserves are acquired due to the holding of financial assets measured at fair value through profit or loss, respective numbers of increased shares should be noted for each type of financial asset and the average unit cost of each share calculated by the weighted average method.

Margins are required when trading futures or options. Changes in the margin balance of futures and options due to daily valuation are reflected under “futures margin-proprietary trading” and “call options” or “put options.” When offsetting a futures or options position, the settlement difference is included in current earnings, and the difference between the settlement prices and average prices of open positions at the balance sheet date is also included in current earnings.

ii Available-for-sale financial assets:

Financial assets are measured at fair value and unrealized gain and loss thereon are recognized as an adjustment item of stockholders' equity. These financial assets should be classified as current and non-current according to liquidity. Non-current financial assets should be reclassified under funds and investments as financial assets measured at fair value through profit or loss- non-current. Available-for-sale financial assets are measured at fair value. The fair value for stocks or depository receipts listed on the Taiwan Stock Exchange (“TSE”) or traded over-the-counter on the GreTai Securities Market (“GreTai”), represents the closing price on the balance sheet date. For open-end funds, fair value represents the net asset value of the given fund on the balance sheet date. Investments in non-listed (or non-over-the-counter) companies in which the Company is unable to exercise significant influence over the investee's operations, financial policies are accounted for by the cost method at each balance date.

iii Held-to-maturity financial assets:

Held-to-maturity financial assets are measured at amortized cost using the effective interest method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been determined if no impairment loss had been recognized.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

In accordance with the second amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement", financial assets classified as assets measured at fair value through profit or loss (other than derivative financial assets and those designated as assets measured at fair value through profit or loss by the entity upon initial recognition) upon initial recognition may be reclassified into other categories. Financial assets classified as available-for-sale that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables category. The accounting treatments on the date of reclassification are summarized as follows:

- i. Financial assets classified as assets measured at fair value through profit or loss upon initial recognition that would have met the definition of loans and receivables shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. Any previous gain or loss already recognized in profit or loss shall not be reversed.
- ii. Financial assets classified as assets measured at fair value through profit or loss upon initial recognition which do not meet the preceding criterion may be reclassified out of the fair value through profit or loss category only in rare circumstances and shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.
- iii. Financial assets classified as available-for-sale that would have met the definition of loans and receivables shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable, if the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity. For any previous gain or loss on a financial asset that has been recognized directly in equity, if the financial asset has a fixed maturity, the gain or loss should be amortized to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains in equity.

**(7) Margin Loan, Short Sale and Refinancing**

Margin loan represents loans extended to customers and is accounted for as receivables for securities provided as collateral. Such loans are secured by the securities purchased by customers. These securities are recorded through memo entries and are returned when the loans are repaid.

Short sale represents securities lent to customers and the deposits received from customers on securities lent out are accounted to guaranty deposited for securities lent. The proceeds from sales of securities lent to customers, net of securities transaction tax, commission and financing charges, is retained by the Company and are recorded under the proceeds payable from securities lent. These securities lent to customers for short sales are recorded through memo entries. The deposits received and the proceeds from short sale will be returned to customers while the securities are returned and paid off.

Refinancing margin loan means that the Company operates margin loan business, if capital is insufficient, the Company can refinance from securities finance companies, recorded as borrowed funds refinanced, and securities from margin loan are regarded pledged.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Refinancing short sale means the Company operates short sale business, if securities are insufficient, the Company can borrow securities from securities finance companies. For securities refinancing, the Company pays margin deposits to securities finance companies and these margin deposits are recorded as refinancing margin. The proceeds from the short sale of securities borrowed from securities finance companies is retained by the securities finance companies as collateral which are recorded as proceeds payable from securities lent and receivable on refinancing collateral, respectively.

**(8) Derivative Financial Instruments**

i Interest Rate Swaps

Since there is no physical transfer of principal, only memo entries of notional principals are made of interest rate swaps. For non-trading swaps, differences in interest are included in current earnings. Trading swaps are recognized on the balance sheet in their fair value. Realized and unrealized changes in their fair value are included in current earnings at the time of occurrence.

ii Convertible Bond Asset -Backed Swaps and Options

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The contract amount for the counter-parties receiving the convertible bond is the notional principal. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counter-parties. The Company also receives the right to call the convertible bond prior to the expiration of the contract.

The rights to call the convertible bond can be sold to third parties and counter-parties, are reflected under asset-backed options.

iii Structured Products

The portfolio of structured products contract is fixed income products and financial derivatives instruments, including main-contract of non-derivatives and embedded derivatives, those shall be recognized separately. The principal value of structured products is the present value of fixed income products, measured at amortized cost, and recognized imputed interest with effective interest rate over the duration of contracts. Embedded derivatives are measured at fair value, and the changes in fair value are recognized through profit or loss.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities ,respectively.

When hedging positions are securities held for trading (including stocks, bonds and warrants) or options contracts, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are futures contracts, the accounting policy is referred to futures hedging transactions.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

iv Interest Options

On the contract date, the premium received from the counterparty is recognized and gain or loss on interest options is valued using the fair value method.

v Bond Options

Over the duration of contracts, the notional principal can be executed is recorded as memo entry. Option contracts are valued at fair market value on the balance sheet date and current gain or loss is recorded. If the options are exercised and underlying bonds are been acquired or delivered, bond selling revenue or purchase costs are recorded at their fair market value. The exercise prices calculated in accordance with interest rate are recorded as receivables or payables.

vi Equity Options

The buyer and seller of equity options recognized equity derivatives assets and liabilities at trading date according to fair value. Equity options are valued at fair value and the difference between book value and fair value are recognized through profit or loss over the duration of contracts.

On the settlement date with physical delivery, the fair value of the acquired securities are stated at cost; the fair value and the cost of the delivered securities are recognized as revenue on sale of securities and cost on sale of securities ,respectively.

When hedging positions are stocks, the accounting policy is referred to stock warrants hedging transactions; when hedging positions are stock index options or stock options, the accounting policy is referred to those hedging transactions.

vii Forward Rate Agreement

As there is no principal is transferred, forward rate agreement is only recorded as memo entry on the contract date. Forward rate agreement contract is valued at fair value and recognized the gain or loss on forward rate agreement.

**(9) Bonds with Resale and Repurchase Agreements**

When bonds are repurchased, they are reflected under “bonds sold under repurchase agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest expense. When bonds are resold, they are reflected under “bonds purchased under resale agreements” at the settlement date. The difference between the selling price and repurchase price is recognized as interest revenue.

**(10) Long-Term Equity Investments**

Investments in equity securities are accounted for under the equity method if the Company owns 20% or more of the investee’s voting shares and has significant operational influence over the investee. Gain or loss on sale of long-term equity investments is recognized upon sale, meanwhile capital surplus-non-subscription of newly issued investee shares have to be adjusted in the statement of income according to sales portion.



**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Majority-owned affiliates are accounted for under the equity method and combined into the consolidated financial statements. The consolidated financial statements are prepared quarterly.

Assets and liabilities of foreign branches are translated by the spot rate at the balance sheet date, and stockholders' equity is translated by historical rate except for the beginning balance of retained earnings, which is translated by the prevailing rate then. Income statement accounts are translated by the weighted-average exchange rate of the period, with exchange difference reported as part of the cumulative translation adjustments to stockholders' equity.

**(11) Premises and Property, Leased Assets, and Depreciation**

Premises and property are stated at cost. Major additions, improvements and replacements are capitalized. Interest incurred in acquisition prior to their ready use is also capitalized. Gain or loss on disposal of premises and property is included in non-operating revenues or expenses. Assets held for rent are classified as "other assets-leased assets".

Depreciation of premises and property is provided by the straight-line method over the estimated useful life prescribed by the government. Leasehold improvements are amortized over their economic lives or lease period whichever is shorter. Assets still in service after full depreciation are depreciated by the estimated useful lives that remain. Estimated useful lives of major property are the following:

Buildings	3 to 55 years
Transportation equipment	5 years
Office facilities	3 to 5 years
Computer equipment	3 to 5 years
Miscellaneous equipment	5 to 10 years
Leasehold improvements	3 years

**(12) Intangible Assets and Amortization**

Other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment that revalued in accordance with the laws, and less any accumulated impairment loss. An intangible asset with an indefinite useful life shall not be amortized.

The useful life of an intangible asset that is not being amortized shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in accounting estimate.

**(13) Deferred Debits and Amortization**

Telephone line installation charges are amortized equally over 3 to 5 years. Computer software cost and dial-up service charges are amortized equally over 3 years.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(14) Overdue Accounts and Allowance for Credit Losses**

The Company's policy for allowance for credit losses is based on the regulations issued by the Authorities. According to SFB Ruling Letter No. 82416, the Company should adopt different accounting process of writing-off doubtful accounts or recognizing doubtful accounts base on the trading characters as follows:

i Margin trading:

- (i) When the account collateral after disposal and its maintenance ratio is still lower than the limitation ruled by the government and payment has yet not been made within the time limit specified, then the account should be transferred to overdue accounts. When evaluating the overdue account, the ratio of allowance for doubtful accounts should be at least 50%. Additionally, the overdue accounts should be collected within six months, if not, the Company should increase allowance for doubtful accounts after reviewing the collectable possibility.
- (ii) If the Company is unable to dispose off securities in the margin trading account from margin loan customers, the receivables for securities provided as collateral should be recognized as other receivables - current assets and the provision for allowance for doubtful accounts should be 100%. The Company should also collect the doubtful accounts and review the classification on a timely basis. If the accounts cannot be collected, the other receivables should be recognized as overdue accounts.
- (iii) If the Company has made an agreement with the client and received payment according to the agreement, then the Company may not provide a provision for such accounts. However, if the Company has not received the payment according to the agreement, then the Company should provide a provision according to the above-mentioned items (i) and (ii).

ii General trading:

- (i) The default account of general trading should be transferred to other receivable – current and 100% provision should be made. The Company should collect the doubtful accounts and review the classification on a timely basis. If the accounts cannot be collected, other receivables should be recognized as overdue accounts.
- (ii) In compliance with the Rules Governing Securities Firms No.12, the Company should provide for default loss on a monthly basis at a rate of 0.0028% of the amount of transaction.

iii Others:

If accounts receivable, notes payable and other accounts receivable not resulting from the above-mentioned transactions are not collectible, they should be written-off. When evaluating the overdue accounts, the ratio of allowance for doubtful accounts should be at least 50%. Additionally, the overdue accounts should be collected within six months, if not, the Company should increase allowance for doubtful accounts after reviewing the collectable possibility of doubtful accounts.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(15) Financial Liabilities**

Financial liabilities measured at fair value through profit or loss are those whose changes in fair value are charged to the income statement. These liabilities should be classified as current and non-current according to liquidity. Non-current financial liabilities should be reclassified under long-term liabilities as financial liabilities measured at fair value through profit or loss- non-current.

Financial liabilities for trading refer to financial liabilities which at the time of initial recognition were designated as liabilities for the purpose of trading. The following financial liabilities should be classified as financial liabilities for trading:

- i Liabilities incurred primarily for the purpose of sale or repurchase in the near term.
- ii Liabilities that are part of a group of distinct financial product portfolios under comprehensive management, where there is evidence that in the near term the group is in fact being managed for short-term profit.
- iii Derivative financial instruments liabilities.
- iv Securities covering obligations in short sales or sales or securities borrowing and lending.
- v Financial liabilities for trading whose subsequent valuations are measured at fair value, where the assessed fair value is negative.

Financial liabilities for trading should be recorded under accounts such as investments in bonds with resale agreements-short sales, stock warrants, securities borrowing and lending, and financial derivatives instruments.

Issuance of stock warrants by a securities firm should be recognized as a liability according to amounts actually received, and amounts paid in the repurchase of stock warrants previously issued should be listed as a deduction from liabilities. When a securities firm engages in securities borrowing and lending transactions, the amounts of sales of borrowed securities should be recognized as liabilities. They should be separately classified as transactions for hedging and non-hedging purposes, and recorded in detail in stock or bond sub-accounts. Amounts paid for repurchase of borrowed securities or bonds should be deductions from this category. Collateral is provided in cash are reflected under "securities borrowing margin".

Financial liabilities measured at fair value through profit or loss, changes in the fair value will be recognized in the current period. Fair value of listed or Over-the-Counter Stock Exchange ("OTC") securities is determined based on the market closing prices on balance sheet date.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

When the Company at the time of original recognition designates certain financial liabilities to be measured at fair value, with changes in fair value to be recognized through profit or loss, it may not thereafter categorize those financial liabilities under other categories; financial liabilities that are not originally recognized as liabilities to be measured at fair value with changes in fair value recognized through profit or loss also may not be reclassified as financial liabilities to be measured at fair value.

**(16) Reserve for Default Losses**

According to the Rules Governing Securities Firms, 0.0028% of brokerage transaction trading value must be provided as a default loss provision. If the reserve exceeds \$200,000, provision may be suspended. Such reserve may only be used to cover default losses from securities brokerage or otherwise upon the approval of SFB.

**(17) Reserve for Trading Losses**

Per SFB regulations, the Company provides 10% of the net gain on proprietary trading of securities as reserve for trading losses, which can only be used to offset net trading losses. If the reserve exceeds \$200,000, provision may be suspended. The Company is required to provide 10% of realized net gain on futures trading as reserve for futures trading losses, which can only be used to offset net trading losses. Should such reserve exceed \$200,000, provision may be suspended.

**(18) Pension Plan**

The Company provides an employee retirement plan covering all regular employees. According to the plan, retirement benefits are determined based on the years of service and average monthly salary over the six-month period prior to the employee's retirement. Each employee will earn two months' salary for each service year for the first fifteen years, one month's salary for each service year after the completion of fifteen years. The Labor Pension Act of R.O.C. ("the Act"), effective from July 1, 2005, adopts a defined contribution pension plan. In accordance with the Act, employees of the Company (who were hired before July 1, 2005) may elect to be subject to either the Act and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. Employees who are hired by the Company after July 1, 2005, are required to be covered by the pension plan as defined by the Act. For employees subject to this Act, the Company is required to make monthly cash contributions to the employees' individual pension accounts at the rate of not less than 6% of the employees' monthly wages and deposit the contribution in a personal retirement benefit account.

In accordance with the to SFB Letter Ruling ,the Company adopted SFAS No.18 from January 1, 1996 .The Company contributes monthly to a pension fund account according to the actuarial report and deposits it as "Employee Pension Fund Management Committee." An actuarial valuation of the pension liability was performed end of the year. The minimum pension liabilities resulting from accumulated benefit obligations in excess of the fair value of the plan assets are recorded in the balance sheet. Net periodic pension costs are recognized, including service cost, interest cost, and amortization of net unrecognized transition benefit obligation over 15 years.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

After the enactment of the Labor Standards Law in April 1998, the fund was deposited into the account "Employee Pension Reserve Administration Committee" and not reflected in the financial statements. Pension payment is withdrawn from the account, and any shortage will be charged to current expense. Unrecognized net transitional pension obligation is amortized over the average remaining years of service.

For the employees subject to the Act of defined contribution plans, the Company contributes 6% of the employees' monthly wages to Bureau of Labor Insurance and charge to current expense account.

**(19) Revenue Recognition**

The Company's interest revenue and brokerage commissions are recognized on an accrued basis.

**(20) Income Tax**

Income tax are computed according to the ROC Income Tax Law and other related regulations. Adjustments to prior years' income tax are reflected as current income tax. Inter- and intra-period income tax allocations are made for temporary differences between finance and tax-based income. Deferred income tax asset or liability is classified as current or non-current by the nature of underlying asset or liability or the expected time of realization. A valuation allowance for deferred income tax assets is recognized subject to management's judgment that realization is more likely than not.

The 10% surtax on undistributed earnings is recognized as current expense on the date of stockholders' meeting to resolve on earnings distribution

**(21) Special Reserve**

Per SFB regulations, securities firms are required to set aside 20% of net income as special reserve, until such amount is equal to its paid-in capital.

**(22) Treasury Stock**

The Company adopted SFAS No. 30 "Accounting for Treasury Stock" to account for repurchase of its outstanding shares, carried at cost. Upon disposal, the excess of sales price over book value is recorded as "capital surplus-treasury stock transaction". Should sales price be lower than the book value, the difference is charged against capital surplus from treasury stock in the same category, and any deficit is debited to retained earnings. The book value of treasury stock is separately computed by reasons of purchase and the weighted-average method is used.

**(23) Earnings Per Share ("EPS")**

EPS is based on the weighted-average number of shares. In the event of capital increase through capitalization of retained earnings, capital surplus, or employee bonuses, EPS is retroactively adjusted by the approved capitalization ratio, regardless of the outstanding period when incremental shares are issued.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The Company's employee bonuses issued by stocks were dilutive potential common shares. If the potential common shares have a non-dilutive effect, the Company should only disclose the basic earnings per share. On the contrary, if the potential common shares have a dilutive effect, the Company should disclose both the basic and diluted earnings per share. In calculating the diluted earnings per share which should take the effect of potential common shares to net income and the weighted-average number of common shares outstanding share into consideration is based on the assumption that all dilutive potential common shares are outstanding and of the current period.

**(24) Employee Bonuses and Directors' Remunerations**

Employee bonuses and directors' remunerations are accounted for by Interpretation 2007-052 issued by the Accounting Research and Development Foundation ( "ARDF" ) . The Company estimates the amount of employee bonuses and directors' remunerations according to the Interpretation and recognizes it as expenses. The differences, if any, between the estimation and the amounts are approved in the shareholders' meeting should be treated as changes in accounting estimates and recognized as the profit or expense at the year of such shareholders' meeting.

**3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES: NONE.**

**4. SUMMARY OF MAJOR ACCOUNTS**

**(1) Cash and Cash Equivalents**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Cash	\$ 2,150	2,150
Bank deposits		
Checking accounts	1,228	3,775
Demand deposits	48,082	36,099
Time Deposits	50,000	-
Foreign Currency Demand Deposits	222,497	9,640
Foreign Currency Time Deposits	1,019,550	-
Subtotal	<u>1,341,357</u>	<u>49,514</u>
Cash equivalents		
Commercial paper	-	444,339
Total	<u>\$ 1,343,507</u>	<u>496,003</u>

As of December 31, 2009, the duration of commercial paper was from December 30, 2009 to January 28, 2010, and the interest rates ranged from 0.18% to 0.20%.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(2) Financial Assets**

As of December 31, 2010 and 2009, the Company's financial assets were as follows:

(a) Financial assets measured at fair value through profit or loss-current

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Financial assets measured at fair value through profit or loss - current		
<b>Financial assets held for trading:</b>		
Open-ended funds and money-market instruments	\$ 714,241	2,329,231
Valuation adjustment	40	(118)
Subtotal	<u>714,281</u>	<u>2,329,113</u>
<b>Securities Available For Sale-Proprietary Trading:</b>		
Listed stocks	1,118,697	1,518,438
OTC stocks	375,755	507,237
Emerging market stocks	590,736	423,286
Convertible corporate bonds	459,987	892,348
Government bonds	279,831	491,355
Corporate bonds	3,889,824	4,800,313
Financial debentures	141,600	193,500
Strips	-	401,814
Offshore mutual funds	5,922	-
Foreign stock	15,200	-
Foreign bonds	27,446	-
Collateralized bond obligation	7,055,903	7,409,608
	<u>13,960,901</u>	<u>16,637,899</u>
Valuation adjustment	(6,999,942)	(6,819,830)
Subtotal	<u>6,960,959</u>	<u>9,818,069</u>
<b>Securities Available For Sale-Underwriting:</b>		
Listed stocks	66,982	37,058
OTC stocks	4,621	2,883
Convertible corporate bonds	273,700	386,400
	<u>345,303</u>	<u>426,341</u>
Valuation adjustment	(81,880)	(88,070)
Subtotal	<u>263,423</u>	<u>338,271</u>
<b>Securities Available For Sale-Hedging:</b>		
Listed stocks	3,067,247	1,766,498
OTC stocks	381,829	535,814
Convertible corporate bonds	2,909,502	1,853,247
Foreign stocks	-	-
Foreign stock	911	-
Offshore mutual funds	1,097	-
	<u>6,360,586</u>	<u>4,155,559</u>
Valuation adjustment	632,309	160,849
Subtotal	<u>6,992,895</u>	<u>4,316,408</u>
<b>Financial Instruments:</b>		
Call options - futures	716	1,418
Futures margin - proprietary fund	97,043	56,873
Equity derivatives	291	2,217
Convertible bond asset-backed swaps	-	9,392
Asset swap options-long position	33,717	9,078
Structured notes	1,709	-
Subtotal	<u>133,476</u>	<u>78,978</u>
Total	<u>\$ 15,065,034</u>	<u>16,880,839</u>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

As of December 31, 2010 and 2009, the par value of securities available for sale-foreign bonds under repurchase agreement was USD\$100 thousand and \$0, respectively, the par value of securities available for sale-bonds and collateralized bond obligation under repurchase agreement were \$6,638,000 and \$7,885,700, respectively (please refer to Note 4(13) for details).

The Company assessed at balance sheet date that the principal of debenture BNP CBO 2006-1B and C (Booked as securities available for sale-proprietary trading.) have been impaired because of the cumulative weighted default ratio was over the detachment point. The Company estimated the fair value and recognized all the valuation adjustment of \$6,941,005 for the year ended December 31, 2008.

- (b) Financial assets measured at fair value through profit and loss - non-current:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Financial assets held for trading:</b>		
Government bonds	\$ 259,808	327,272
Valuation adjustment	(655)	1,000
Total	<u>\$ 259,153</u>	<u>328,272</u>

As of December 31, 2010 and 2009, the Company provided government bonds as collateral for the issuance of guaranty deposited for bills, interest rate swaps, structured notes and settlement fund guarantee deposits (please refer to Note 6 for details).

- (c) Available-for-sales financial assets-non-current:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Ownership ratio</u>	<u>Amount</u>	<u>Ownership ratio</u>	<u>Amount</u>
<u>Non-listed (or non-over-the-counter)</u>				
Taiwan Depository & Clearing Corp.	0.72%	\$ 12,341	0.72%	12,341
Union Bills Finance Corp.	-	-	2.35%	68,115
An-Tai Securities Finance Co., Ltd.	-	-	6.16%	237,312
Taiwan Futures Exchange Corp.	1.02%	21,288	1.02%	21,288
Fuji Management Consulting Co., Ltd.(originally named Fubon Securities Finance Co., Ltd.)	0.39%	343	0.39%	15,955
Taiwan Integrated Shareholder's Service Corp.	5.27%	15,395	5.27%	15,395
Taiwan Stock Exchange Corporation	0.01%	1,191	0.01%	1,191
		<u>\$ 50,558</u>		<u>371,597</u>

The shareholders of Fuji Management Consulting Co., Ltd.(originally named Fubon Securities Finance Co., Ltd.) resolved to reduce capital with effective date of December 22, 2010 on October 28, 2010. The ratio of capital reduction was 99.75%. The stock payment is expected to refund on January 20, 2011 and the balance of account receivable from capital reduction was \$15,612.



**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The Union Bills Finance Corp was merged with listed company Union Bank of Taiwan in August 2010. The Company re-recognized the investment as available-for-sales financial assets - current. As of December 31 2010, the investment has been disposed.

On March 1, 2010, The Company merged An-Tai Securities Finance Co., Ltd. by one share of common stock for 1.4086 shares common stock of An-Tai Securities Finance Co., Ltd., and wrote off originally owned 24,881 thousand shares stock. In addition, the acquisition costs were less than the fair market value of identifiable net assets, through proportional deduction of the fair value of non-current asset there is still a difference of \$56,927. By deducting the income tax expense \$9,678, the net amount was \$47,249 and recognized as extraordinary gain.

(d) Held-to-maturity financial assets:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Government bonds	<u>\$ 790,885</u>	<u>790,996</u>

As of December 31, 2010 and 2009, the Company provided held-to-maturity financial assets as guaranty deposited for business operations (please refer to Note 6 for details).

(3) **Bonds Purchased Under Resale Agreements**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Bonds purchased under resale agreements	<u>\$ 1,575,559</u>	<u>1,404,498</u>
Resale price under the agreements	<u>\$ 1,576,152</u>	<u>1,404,843</u>
Interest rate	<u>0.43%~2.5%</u>	<u>0.05%~2.5%</u>

As of December 31, 2010 and 2009, the Company took bonds purchased under resale agreements \$1,575,559(Par value \$1,540,000) and \$1,297,612 (Par value \$1,297,200) for repurchase agreements, respectively (please refer to Note 6 for details).

(4) **Accounts Receivable**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Interests receivable	\$ 406,731	223,232
Receivables on securities sold	242,574	485,870
Others	127,238	33,505
Subtotal	776,543	742,607
Less: Allowance for doubtful accounts	(15,934)	(15,934)
Total	<u>\$ 760,609</u>	<u>726,673</u>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(5) Long-Term Investments Under Equity Method**

	December 31, 2010		December 31, 2009	
	Ownership ratio	Amount	Ownership ratio	Amount
Capital Investment Management Corp. (Original investment at \$72,515)	100.00%	\$ 92,328	100.00%	92,257
CSC International Holdings Ltd. (Original investment at \$1,339,555)	100.00%	1,684,524	100.00%	1,869,377
Capital Futures Corp. (Original investment at \$413,043)	60.60%	946,411	60.60%	861,238
Capital Insurance Advisory Corp. (Original investment at \$3,890)	100.00%	5,459	100.00%	5,608
Capital Insurance Agency Corp. (Original investment at \$7,400)	100.00%	40,024	100.00%	31,643
Capital Futures Management Corp. (Original investment at \$38,500 in 2009, \$5,236 in 2010)	38.50%	-	38.50%	34,619
Mien Nam Securities Joint Stock Company (Original investment at \$28,127 in 2009)	-	-	30.00%	25,961
Taiwan International Securities Corp. (Original investment at \$12,248,887)	90.5251%	12,189,081	-	-
Total		\$14,957,827		2,920,703

Gain or loss on investments accounted for under the equity method based on audited investee financial statements or self-prepared financial statements were as follows:

	2010	2009
<u>Based on the audited financial statements</u>		
Capital Investment Management Corp.	\$ 1,401	1,467
CSC International Holdings Ltd.	(16,531)	(21,204)
Capital Futures Corp.	107,968	120,908
Capital Futures Management Corp.	(1,268)	(2,631)
Taiwan International Securities Corp.	(56,525)	-
<u>Based on the self-prepared financial statements</u> <u>by investee companies</u>		
Capital Insurance Advisory Corp.	18	178
Capital Insurance Agency Corp.	22,145	14,132
Mien Nam Securities Joint Stock Company	(4,842)	(1,024)
Total	\$ 52,366	111,826

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The Company's application to invest 49% of shares in Mien Nam Securities Joint Stock Company was approved by Financial Supervisory Commission, Executive Yuan (No. 0980032935) on July 14, 2009. On October 7, 2009, the Company invested 15.6 billion Vietnamese Dong (approximate \$28,127) to acquire 30% equity for the first phase investment. Because of the original stock sellers violated the investment agreement, the Company decided to dispose the stocks of Mien Nam Securities Joint Stock Company for \$14.4 billion Vietnamese Dong (approximate \$21,744) in December 2010, and recognized a loss of \$516.

In April 2009, the Company sold 830 thousand shares of Capital Futures Corp. stocks for \$22,756 because the underwriters exercised the greenshoe option. The transaction resulted in gain of \$6,517 and therefore the ownership ratio decreased from 68.01% to 66.67%.

On April 23, 2009, Capital Futures Corp. issued common stock of 6,150 thousand shares for the public offering before OTC Listing. As the original stockholders forgone the priority to subscribe newly issued stocks, the ownership ratio decreased from 66.67% to 60.60% and the capital surplus increased \$28,043.

Capital Futures Management Corp. held the shareholders' special meeting to pass the motion of company dissolution. The base date of dissolution was set on August 31, 2010 and the dissolution procedure was completed on September 13, 2010. Capital Futures Management Corp. refunded partial proceeds to the shareholders on December 10, 2010 and the Company received \$33,264 according to the proportion of shares held. The procedure of liquidation is expected to be completed in May 2011.

The Company acquired 89.6066% of the shares of Taiwan International Securities Corp. (the "TISC") during the public tender offer period (from September 23, 2010 to October 6, 2010), and continually acquired the stocks from the open market. As of December 31, 2010, the investment ratio reached 90.5251% and the merger is expected to be completed on May 2, 2011.

The financial statements of TISC as of December 31, 2010 were audited by other CPA, for which a modified unqualified opinion was issued on March 17, 2011, and the explanatory paragraph was as follows:

- (a) The bond funds and balance fund which managed by Taiwan International Investment Management Co, Ltd. ("TIIM") disposed its' structured notes to Hui Pu Investment Co., Ltd. and other investment companies for the amount \$6.11 billion and \$2.45 billion at the end of 2005. Then Hui Pu Investment Co., Ltd. and other investment companies took these structure notes to conduct the bond purchased transaction under resale agreements with TISC. As of December 31, 2010, the interest rate range was from 0.6%~3.25% and the balance of this bond purchased under resale agreements was \$0. The interest income of 2010 was \$2,350. As of December 31, 2010, the interest account receivable was \$0. TISC was guaranteed by TIIM for its loss subject to the aforementioned bonds transaction, and also received the right to claim towards TIIM from Hui Pu Investment Co., Ltd. and other investment companies when there is any potential capital loss or legal events concerning the transaction of the structure notes. After considering the future receivable possibility of interest and principal from trading counterparty and TIIM as well as the fair value of the relevant structure notes, TISC has recognized \$793 in bad debt losses and \$44,674 in impairment losses as of December 31,

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

2009. As of December 31, 2010, the above mentioned structure notes were all matured and fully repaid or were under early termination. Hui Pu Investment Co., Ltd. and other investment companies fully reimbursed the amount of the bond purchased transaction based on the agreement for \$5,713,279, included the loss of \$167,719 which was originally guaranteed to recognize by TIIM. As of December 31, 2010, the bonds purchased transactions related to this structure notes were all closed and TISC recognized \$44,674 and \$129,627 as recovery of impairment losses and bad debt.

(b) The controversies of TISC's management

1. The TISC applied for the amendment registration with the eighth board of directors and supervisors newly elected over its shareholder's meeting to the Ministry of Economic Affairs on July 1, 2009. However, the Ministry of Economic Affairs rejected the application on August 4, 2009 and the TISC resent the application on September 28, 2009 again and filed petitioned against the rejection of the Ministry of Economic Affairs. The China Development Financial Holding Co., Ltd, a shareholder of the TISC possessed a different point of view towards the aforementioned election motion and instituted a proceeding in terms of the existence of fiduciary relation toward the TISC. On June 4, 2010, Taiwan Taipei District Court ruled that the fiduciary relation between TISC and aforementioned board of directors and supervisors was not existed based on Year 2009 No. 1086 verdict. TISC appealed to the verdict on June 7, 2010 and the case is under the trial of Taiwan High Court currently.
2. Due to the public prosecutor of Taipei District Court's concern that the board of directors fails or is unable to exercise its power and authority and would likely to cause damages to TISC, the prosecutor petitioned to appoint temporary managers for TISC. On June 14, 2010, Taiwan Taipei District Court enforced to appoint Chao-Chun Chu, Hsin-Hsing Lee and Wen-Zhen Wu as temporary managers based on Year 2010 Si Zhi No. 9 verdict. The Ministry of Economic Affairs followed the instruction of Taiwan Taipei District Court and completed the change registration of the temporary managers on June 18, 2010. The temporary managers entered and stationed at TISC by the afternoon of June 24, 2010. Later in October 6, 2010, the Financial Supervisory Commission approved Capital Securities Corp. to invest TISC through public tender offer. Capital Securities Corp. requested the temporary managers to hold a shareholders' special meeting to conduct a full reelection of board of directors and supervisors. On November 22, 2010, TISC reelected the ninth board of directors and supervisors and designated Shu-Yuan Lin as the new president. The change registration of the new board of directors and supervisors was completed on January 25, 2011.
3. TISC designated Shien-Fu Chu as its general manager based on the decision of the eighth board of directors (Refer to (1)) on August 10, 2009. Later, the temporary managers passed the fiduciary motion and designated Shien-Fu Chu as its general manager on July 16, 2010.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (c) In order to expand business scale to increase operation efficiency and competitiveness of the Company, TISC and Capital Securities Corp. adopted the method of “consolidation by merger” to process short form merger based on the decision of the board of directors on March 9, 2011. After the merger, Capital Securities Corp. shall be the surviving company and TISC will be the extinguished company. Per the agreement by both sides, the stock conversion ratio between TISC and Capital Securities Corp. will be one share of TISC common stock to 0.2764 shares of Capital Securities Corporation common stock plus NTD \$8.4 dollars in cash. The base date of the merger is temporary arranged on May 2, 2011, the board of directors of both sides shall consider the feasibility of the merger operation, the compliance procedure of relevant laws, and decrees or the demand from competent authorities (including foreign competent authorities which has the right to supervise the overseas subsidiaries and branches of the contractor) and change the base date from the will of integrity.
- (d) According to the documentation No. 0990030563 verdict of Financial Supervisory Commission (dated June 14, 2010), TISC is suspected to violate the Regulations Governing Securities Firms due to some employees selling private placed products of Genesis Growth Income Preferred Shares B1 issued by GVEC (Genesis Voyager Equity Corporation, Danny Pang as related party) privately. According to the understanding and inspection of TISC, some employees may have been selling aforementioned product and suspected sales amount is US\$15 million. However, relevant evidence is still under inspection and the legal responsibilities are still on pending to be clarified. Some investors institute proceedings towards TISC and claim damage compensations for total amount of US\$6,142,346.5. According to the opinion from the attorney of TISC, the case is under the trial currently and possible loss remains uncertain at the moment.

The Company has combined all controllable investee companies into the consolidated financial statements excepting for Capital Insurance Advisory Corp. and Capital Insurance Agency Corp.

Since the capitals of Capital Insurance Advisory Corp. and Capital Insurance Agency Corp. only amounted to \$3,890 and \$7,400, respectively, and for the year ended December 31, 2010 and 2009, those total assets to the Company are only 0.01% and 0.08% and 0.01% and 0.08%, respectively, and operation revenue to the Company are only 0.06% and 1.01% and 0.05% and 0.69%, respectively. Capital Insurance Advisory Corp. and Capital Insurance Agency Corp. are not material to the Company and therefore have been excluded in the consolidated financial statements.

**(6) Premises and Property**

As of December 31, 2010 and 2009, the premises and property and leased assets have been provided as collateral of bank borrowings (please refer to Note 6 for details).

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(7) Intangible assets**

The Company acquired the securities corporation operation franchise during 1994 to 2005 and expected the franchise will generate continuing cash inflows. In accordance with SFAS No.37 "Intangible Assets," the franchise is regarded as intangible assets with an indefinite useful life. As of December 31, 2010 and 2009, the book value of the operation franchise both was \$389,999.

**(8) Other Assets**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Overdue accounts	\$ 27,875	25,516
Less: Allowance for credit losses	(27,875)	(25,516)
Others	343	298
Net	<u>\$ 343</u>	<u>298</u>

**(9) Brokerage Accounts, Net - Debit (Credit)**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Bank deposits - accounts settled	\$ 37,511	36,986
Receivables on securities purchased - Taiwan Stock Exchange	188,954	161,958
Receivables on securities purchased - OTC	66,830	35,147
Receivables from accounts settled	5,142,898	6,731,142
Settlement	1,108,088	1,368,429
Proceeds payable on securities sold - Taiwan Stock Exchange	(155,579)	(476,190)
Proceeds payable on securities sold - OTC	(57,027)	(15,390)
Payables for accounts settled	(6,458,319)	(7,938,204)
Credit transactions	800	(16,122)
Net	<u>\$ (125,844)</u>	<u>(112,244)</u>

**(10) Short-Term Borrowings**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<u>Nature of borrowings</u>		
Collateralized loan	\$ 1,475,027	1,630,000
Credit loans	500,000	400,000
Total	<u>\$ 1,975,027</u>	<u>2,030,000</u>

Short-term borrowings are based on floating interest rates. As of December 31, 2010 and 2009, the loan interest rates ranged from 0.6% to 1.13% and from 0.54% to 0.8%, respectively. As of December 31, 2010 and 2009, the Company has provided the land, buildings, and certificates of time deposits as collateral (please refer to Note 6 for details).

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(11) Commercial Paper Payable**

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Interest rate</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Amount</u>
Commercial paper payable	0.603%~0.738%	7,310,000	0.528%~0.588%	4,490,000
Less: Unamortized discount		(1,675)		(377)
Net		<u>7,308,325</u>		<u>4,489,623</u>

**(12) Financial Liabilities**

As of December 31, 2010 and 2009, the Company's financial liabilities were as follows :

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
(a) Financial liabilities measured at fair value through profit or loss - current		
Financial liabilities held for trading:		
Bonds with resale agreements	\$ -	102,343
Valuation adjustment	-	(222)
Subtotal	-	102,121
Borrowed securities payable	89,713	202,394
Borrowed securities payable repurchased	(38,122)	(76,229)
Valuation adjustment	3,963	17,997
Subtotal	55,554	144,162
Stock warrants issued	9,956,354	4,434,084
Stock warrants repurchased	(9,114,558)	(3,937,982)
Subtotal	841,796	496,102
Put options - futures	5,822	60
Equity derivatives	33	4
IRS asset swaps	17,067	45,263
Convertible bond asset-backed swaps	6,364	-
Asset swap options - short position	769,347	282,268
Structured notes	16,800	8,341
Subtotal	815,433	335,936
Total	<u>\$ 1,712,783</u>	<u>1,078,321</u>

**(13) Bonds Sold Under Repurchase Agreements**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Bonds sold under repurchase agreements	<u>\$ 8,351,156</u>	<u>9,438,996</u>
Agreed-upon repurchase amounts	<u>\$ 8,353,670</u>	<u>9,440,813</u>
Interest rates	<u>0.22%~1%</u>	<u>0.12%~0.80%</u>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(14) Other Payables**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Income tax payable	\$ 2,160,263	2,765,954
Accrued salaries	651,217	715,977
Accrued fee discount	138,278	170,036
Others	144,794	133,621
Total	<u>\$ 3,094,552</u>	<u>3,785,588</u>

**(15) Long-Term Borrowings**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Long-term borrowings	\$ 4,400,000	1,100,000
Long-term commercial paper payable	300,000	600,000
Less: Unamortized discount	(133)	(329)
Less: Current portion of long-term debt	-	(599,671)
Non-current portion of long-term debt	<u>\$ 4,699,867</u>	<u>1,100,000</u>
Collateral	Real estate	Real estate
Interest rate range	0.73%~1.041%	0.600%~0.764%

In May 2010, the Company signed the commercial paper issuance contract amounting to \$600,000 with China Bills Finance Corp., for a period of 3 years. Pursuant to the loan agreement, the use rate shall be maintained over 50% and the credit line bears a floating interest rate.

In September 2010, the Shih-Mao branch of Hua Nan Commercial Bank approved a medium to long-term credit line of \$4,000,000 with a term of 2 years. During the life of the loan, the credit line will not decrease and bears a floating interest rate. The contract will be assessed every year.

In September 2010, the Tunhwa branch of Chang Hwa Bank approved a medium to long-term credit line of \$2,500,000 with a term of 2 years, and bears a floating interest rate.

In September 2009, the Shih-Mao branch of Hua Nan Commercial Bank approved a medium to long-term credit line of \$3,000,000 with a term of 2 years. During the life of the loan, the credit line will not decrease and bears a floating interest rate. The contract will be assessed every year.

In May 2007, the Company signed the commercial paper issuance contract amounting to \$600,000 with China Bills Finance Corp., for a period of 3 years. Pursuant to the loan agreement, the total amount of the commercial paper shall be issued within the credit period and bears a floating interest rate.



**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(16) Pension Plan**

- (a) In 1989, the Company established a retirement plan covering all regular employees. Pension payment is commensurate with years of service: two months' salary is granted for a year of service up to the 15th year, and one month's salary for a year thereafter. The maximum is 45 months' salary. An additional 20% pension is made for severance compensation. The Company contributes to the pension fund according to the actuarial report. Contribution made prior to the enactment of Labor Standards Law is deposited in the account "Employee Pension Fund Management Committee" and is administered according to Article 6 of "Administration and Distribution Rules for Employee Pension Fund Established by Profit-Seeking Enterprises" and Article 4.1 of "Operational Rules for the Administration of Employee Pension Fund." After the enactment, the Company deposits pension fund with Bank of Taiwan.

Actuarial assumptions used to calculate net pension costs in 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	3.00%	2.75%
Future salary increase rate	2.50%	1.50%
Projected long-term rate of return on pension assets	1.50%	1.50%

Reconciliation between funded status and accrued pension liability per book were as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Vested benefit obligation	\$ (206,073)	(183,513)
Non-vested benefit obligation	(321,370)	(329,770)
Accumulated benefit obligation	(527,443)	(513,283)
Effect of future salary increases	(86,137)	(55,015)
Expected benefit obligation	(613,580)	(568,298)
Fair value of pension fund assets	507,951	489,375
Funded status	(105,629)	(78,923)
Unrecognized net transitional benefit obligation	12,025	14,204
Unrecognized (gain) loss of pension fund	76,840	48,282
Additional minimum pension liability	(2,729)	(7,471)
Accrued pension liabilities	<u>\$ (19,493)</u>	<u>(23,908)</u>

As of December 31, 2010 and 2009, vested benefits amounted to \$231,793 and \$205,651, respectively.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

In 2010 and 2009, components of net pension cost were as follows:

	<u>2010</u>	<u>2009</u>
Service cost	12,833	13,026
Interest cost	15,628	14,289
Actual return on pension fund assets	\$ (5,373)	(5,152)
(Loss) gain on pension fund assets	<u>(1,968)</u>	<u>(4,404)</u>
Expected return on pension fund assets	(7,341)	(9,556)
Amortization of unrecognized net transitional benefit obligation	<u>2,179</u>	<u>2,179</u>
Net pension cost	<u><u>23,299</u></u>	<u><u>19,938</u></u>

- (b) As of December 31, 2010 and 2009, the pension expenses were \$66,249 and \$55,255, respectively, under the defined contribution plan, and provisions to Bureau of Labor Insurance amounted to \$65,861 and \$54,399, respectively.

**(17) Income Tax Expense**

- (a) In 2010 and 2009, components of income tax expense were as follows:

	<u>2010</u>	<u>2009</u>
Current income tax expense	\$ 483,268	451,226
Deferred income tax expense	174,048	349,741
Undistributed earning add 10% income tax expense	1,485	-
Income tax expense	<u><u>\$ 658,801</u></u>	<u><u>800,967</u></u>
	<u>2010</u>	<u>2009</u>
Component of deferred tax expense :		
Unrealized gain (loss) on derivative financial instrume	\$ (97,743)	19,398
Unrealized loss on foreign investments under equity method	(2,636)	(5,557)
Reversal of credit losses over tax allowable limit	-	24,537
Amortization of operation franchise	9,693	16,415
Decrease in loss carried forward	64,552	-
Cumulative effects of changes in income tax rate	<u>200,182</u>	<u>294,948</u>
	<u><u>\$ 174,048</u></u>	<u><u>349,741</u></u>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (b) According to amendment of Income Tax Law which announced on May 27, 2009, the Company's income tax rate was changed 25% to 20% effective from January 1, 2010. Furthermore, according to amendment of Income Tax Law which announced on June 15, 2010, the Company's income tax rate was reduced to 17% effective from January 1, 2010. In 2010 and 2009, the Company's income tax rates were 17% and 25%. The Company calculated the minimum tax expenses according to "Alternative Minimum Tax Rule". The income tax computed on financial income at statutory tax rate was reconciled with income tax expense as reported in the income statement in 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Income tax computed on financial income at statutory tax rate	\$ 393,392	836,852
Income tax effect due to permanent differences	(51,513)	(592,007)
Income tax effect due to temporary differences	90,686	(52,601)
Investment tax credits	-	(1,978)
Decrease in loss carried forward	<u>(68,998)</u>	<u>-</u>
Current income tax payable	363,567	190,266
Income tax difference of bonds purchased under resale agreements and income tax separately levied	(47)	18,708
Adjustments to prior years' income tax	129,426	243,403
Tax of discontinued operations	-	(1,151)
Tax of extraordinary gain	<u>(9,678)</u>	<u>-</u>
Current income tax expense	<u>\$ 483,268</u>	<u>451,226</u>

- (c) As of December 31, 2010 and 2009, deferred income tax assets or liabilities were as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
Temporary differences which resulted in deferred income tax assets or liabilities:				
Deductible temporary difference from provision for default loss reserve	\$ 200,351	34,060	200,351	40,070
Deductible temporary difference from provision pension fund	-	-	9,436	1,887
Deductible temporary difference from unrealized investment loss	6,941,005	1,179,971	6,941,005	1,388,201
Deductible temporary difference from loss carry forward	3,579	608	-	-
Deductible temporary difference from unrealized loss on derivative financial instruments	85,331	14,506	-	-
Deductible temporary difference from cumulative translation adjustments of long-term investments	<u>65,796</u>	<u>11,185</u>	<u>-</u>	<u>-</u>
Total deferred income tax assets	<u>\$ 7,296,062</u>	<u>1,240,330</u>	<u>7,150,792</u>	<u>1,430,158</u>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
Taxable temporary difference from unrealized gain on foreign investments	\$ 410,767	69,830	426,273	85,255
Taxable temporary difference from provision pension fund	1,859	316	-	-
Taxable temporary difference from loss on intercompany transactions	9,639	1,639	9,639	1,928
Taxable temporary difference from unrealized gain on derivative financial instruments	-	-	489,630	97,926
Taxable temporary difference from cumulative translation adjustments of long-term investments	-	-	101,385	20,277
Taxable temporary difference from amortization of operation franchise	232,617	39,545	175,596	35,119
<b>Total deferred income tax liabilities</b>	<b><u>\$ 654,882</u></b>	<b><u>111,330</u></b>	<b><u>1,202,523</u></b>	<b><u>240,505</u></b>

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	Deferred income tax assets - current	\$ 15,114	-	-
Deferred income tax liabilities - current	-	-	-	(97,926)
<b>Net</b>	<b><u>\$ 15,114</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(97,926)</u></b>
Deferred income tax assets - non-current	\$ 1,225,216	-	1,430,158	-
Deferred income tax liabilities - non-current	(111,330)	-	-	(142,579)
<b>Net</b>	<b><u>\$ 1,113,886</u></b>	<b><u>-</u></b>	<b><u>1,430,158</u></b>	<b><u>(142,579)</u></b>

- (d) As of December 31 2010, net operating losses available for carried forward to offset against future taxable income were as follows::

<u>Loss Year</u>	<u>Deductible Amount</u>	<u>Expiration Year</u>
2010(reported) (Note)	<u>\$ 3,579</u>	109

Note: The loss occurred from the extinguished company (An-Tai Securities Finance Co., Ltd.) made its current final report up to the date of merger .

- (e) The information about imputation system were as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Undistributed earnings prior to 1997	\$ -	-
Undistributed earnings after 1998	1,660,446	2,545,331
	<u>\$ 1,660,446</u>	<u>2,545,331</u>
Imputation credit account	<u>\$ 637,504</u>	<u>326,150</u>
	<u>2010 (Estimated)</u>	<u>2009 (Actual)</u>
Deductible ratio for earnings distributed to ROC residents	<u>18.71%</u>	<u>34.30%</u>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (f) The Tax Authority assessed the Company's income tax returns through 2007, except 2006. Since income from securities trading and gain or loss on stock warrants issued withheld from 2003 to 2005 and 2007 were assessed differently from those reported by the Company, additional tax of \$2,082,986 was levied, and the Company has filed for administrative relief. The additional tax was accrued conservatively.

**(18) Capital Stock and Earnings**

(a) Capital Stock

As of December 31, 2010 and 2009, the Company had authorized capital of \$30,000,000 and issued common stock of \$23,057,225 and \$16,107,860 with \$10 dollars per share, respectively.

In order to complete the stock payment of the public acquisition of Taiwan International Securities Corporation, the Company increased its capital and issued 268,173 thousand shares of common stock. The capital increase was approved by the Financial Supervisory Commission, Executive Yuan on October 6, 2010, and the record date of capital increase was October 19, 2010. The Company had completed the registration.

On June 15, 2010, the Company's stockholders resolved to transfer un-appropriated earnings of \$1,578,913 and issued 157,891 thousand shares of common stock. The capital increase was approved by the Financial Supervisory Commission, Executive Yuan on July 6, 2010 and the record date was August 8, 2010. The Company had completed the registration.

In order to merge An-Tai Securities Finance Co., Ltd., the Company increased its capital and issued 268,872 thousand shares of common stock on March 1, 2010. The Company had completed the registration.

On February 20, 2009, the board of directors resolved to make applications to the Authority to decrease capital with retirement of 16,001 thousand shares treasury stock (the purchase cost was \$115,044). The capital reduction with effective date of February 22, 2009, resulted a decrease in common stock of \$160,010 and an increase capital surplus of \$44,966. The Company had completed the registration.

(b) Distribution of earnings and dividend policy

According to the Company's Articles of Incorporation, after-tax earnings should first offset accumulated deficit, and then 10% and 20% of the remainder should be appropriated as legal reserve and special reserve, respectively. The shareholders' meeting may declare dividends after retaining a certain portion of earnings. The rest may be distributed in the ratio specified below:

1. Remuneration to directors and supervisors: 4%.
2. Employee bonus: 3%.
3. Dividends: 93%.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The estimation of employee bonuses and remunerations to directors and supervisors was calculated based on the income after tax at December 31, 2010 and 2009, deduct legal reserve and special reserve multiply the distribution rates of employee bonuses and remunerations to directors and supervisors of 3% and 4%. As of December 31, 2010 and 2009, the company estimated employee bonuses of \$36,500 and \$57,240 and remunerations to directors and supervisors of \$48,665 and \$76,320, respectively. The shares of employee stock bonuses were calculated based on the closing price of the date before stockholders' meeting which also took into consideration the effect of stock dividends. Difference between the amount approved at the shareholders' meeting and the estimation were accounted for as changes in accounting estimates and will be reflected in the statement of income in the following year.

To continue its expansion and increase profitability, and maintain its capital adequacy ratio, the Company adopts the residual dividend policy. The amount of earnings to distribute after retaining earnings must be higher than 10% of the distributable balance. According to the budget plan, stock dividends are first distributed to retain necessary funds, and the rest may then be paid as cash dividends. Cash dividends cannot be less than 10%.

The Company's 2009 earnings distribution for employee bonuses, remuneration to directors and supervisors, cash dividends and stock dividends were \$56,996, \$75,995, \$187,966 and \$1,578,913 under the resolution of shareholders' meeting on June 15, 2010. On July 15, 2010, the board of directors resolved to set record date of earning distribution as August 8, 2010. Due to the above changes, the difference of employee bonuses \$57,240 and remuneration to directors and supervisors \$76,320 for 2009 financial statements was \$569 in total. The difference was accounted for as changes in accounting estimates and would be reflected in the statement of income in 2010.

On June 10, 2009, the stockholders resolved to offset accumulated deficit by special reserve of \$3,647,970, legal reserve of \$1,823,985 and capital surplus of \$120,687.

- (c) The resolution of the board of directors and stockholders about earnings distribution can be found on the Market Observation Post System.

**(19) Treasury Stock**

As of December 31, 2010 and 2009, the price in excess of the cost repurchased for treasury stocks were \$107,031, and recorded under capital surplus-treasury stock.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(20) Basic Earnings Per Share**

	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
Income from continuing operations	\$ 2,258,444	1,599,643	3,348,794	2,547,827
Loss from discontinued operations	(1,299)	(1,299)	(1,345)	(2,496)
Extraordinary gain	56,927	47,249	-	-
Net income	<u>\$ 2,314,072</u>	<u>1,645,593</u>	<u>3,347,449</u>	<u>2,545,331</u>
Outstanding shares at end of year (thousands of shares)	<u>2,305,723</u>	<u>2,305,723</u>	<u>1,610,786</u>	<u>1,610,786</u>
Weighted-average number of common stock shares outstanding (thousands of shares)	<u>2,044,807</u>	<u>2,044,807</u>	<u>1,610,786</u>	<u>1,610,786</u>
Capital increase from retained earnings in 2009- retroactively stated(thousands of shares)			<u>1,746,092</u>	<u>1,746,092</u>
Basic earnings per share (dollar)				
Income from continuing operations	\$ 1.10	0.78	2.08	1.58
Loss from discontinued operations	-	-	-	-
Extraordinary gain	0.03	0.02	-	-
Net income	<u>\$ 1.13</u>	<u>0.80</u>	<u>2.08</u>	<u>1.58</u>
Basic earnings per share (dollar) – restroactively stated				
Income from continuing operations			1.92	1.46
Loss from discontinued operations			-	-
Extraordinary gain			-	-
Net income			<u>1.92</u>	<u>1.46</u>
Dilutive potential ordinary shares (thousands of shares)(Note)	<u>2,332</u>	<u>2,332</u>	<u>2,891</u>	<u>2,891</u>
Weighted-average outstanding shares for calculating dilutive EPS (thousands of shares)	<u>2,047,139</u>	<u>2,047,139</u>	<u>1,613,677</u>	<u>1,613,677</u>
Dilutive shares-Capital increase from retained earnings			<u>1,748,983</u>	<u>1,748,983</u>
Dilutive earnings per share (dollar)				
Income from continuing operations	\$ 1.10	0.78	2.07	1.58
Loss from discontinued operations	-	-	-	-
Extraordinary gain	0.03	0.02	-	-
Net income	<u>\$ 1.13</u>	<u>0.80</u>	<u>2.07</u>	<u>1.58</u>
Dilutive earnings per share (dollar) – restroactively stated				
Income from continuing operations			1.91	1.46
Loss from discontinued operations			-	-
Extraordinary gain			-	-
Net income			<u>1.91</u>	<u>1.46</u>

(Note) The shares were calculated based on the closing price at the balance sheet date.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**(21) Disclosure of Financial Instruments**

(a) As of December 31, 2010 and 2009, the fair value of the Company's financial assets and financial liabilities were as follows:

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
<b>Financial assets :</b>				
Cash and cash equivalents	\$ 1,343,507	1,343,507	496,003	496,003
Financial assets measured at fair value through profit or loss - current	15,065,034	15,065,034	16,880,839	16,880,839
Bonds purchased under resale agreements	1,575,559	1,575,559	1,404,498	1,404,498
Receivable for securities provided as collateral	20,003,544	20,003,544	17,268,183	17,268,183
Refinancing margin	-	-	43,021	43,021
Receivable on refinancing collateral	11,845	11,845	78,798	78,798
Receivable for securities lending and borrowing	1,464	1,464	11,498	11,498
Security borrowing margin	145,926	145,926	143,092	143,092
Notes receivable	3,064	3,064	2,353	2,353
Accounts receivable	760,609	760,609	726,673	726,673
Other receivables	130,832	130,832	95,781	95,781
Pledged assets - current	359,500	359,500	395,500	395,500
Financial assets measured at fair value through profit or loss - non-current	259,153	259,153	328,272	328,272
Available-for sale financial assets - non-current	50,558	50,558	371,597	371,597
Held-to-maturity financial assets - non-current	790,885	790,885	790,996	790,996
Guaranty deposited for business operations	83,250	83,250	83,300	83,300
Settlement fund	303,995	303,995	270,577	270,577
Refundable deposits	71,738	71,738	298,025	298,025
<b>Financial liabilities :</b>				
Short-term borrowings	\$ 1,975,027	1,975,027	2,030,000	2,030,000
Commercial paper payable	7,308,325	7,308,325	4,489,623	4,489,623
Financial liabilities measured at fair value through profit or loss - current	1,712,783	1,712,783	1,078,321	1,078,321
Bonds sold under repurchase agreements	8,351,156	8,351,156	9,438,996	9,438,996
Guaranty deposited for securities lent	1,580,004	1,580,004	2,094,369	2,094,369
Proceeds payable from securities lent	1,870,818	1,870,818	2,410,479	2,410,479
Securities lending refundable deposits	1,250,226	1,250,226	-	-
Notes payable	901	901	21,383	21,383
Accounts payable	258,052	258,052	514,345	514,345
Other payables	3,094,552	3,094,552	3,785,588	3,785,588
Long-term liabilities - current portion	-	-	599,671	599,671
Other financial liabilities - current	302,513	302,513	619,494	619,494
Long-term borrowings	4,699,867	4,699,867	1,100,000	1,100,000
Other financial liabilities - non-current	1,265,891	1,265,891	715,510	715,510
Guarantee deposits received	7,163	7,163	5,808	5,808



**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(b) Methods and assumptions used in estimating the fair value of financial instruments were specified below:

1. For short term financial instruments, the fair values are determined based on their carrying amounts because of their short maturities. The method is applied to cash and cash equivalents, bonds purchased under resale agreements, receivable for securities provided as collateral , refinancing margin, receivable on refinancing collateral, receivable for borrowing or lending securities, security borrowing margin ,accounts receivable and notes receivable, other receivables, pledged assets, held-to-maturity financial asset ,short-term borrowings, commercial paper payable, bonds sold under repurchase agreements, guaranty deposited for securities lent , proceeds payable from securities lent , guarantee deposits for securities borrowing , accounts payable , other payables, other financial liabilities - current ,guarantee deposits received and long-term liabilities-current portion and long-term borrowings .
2. The fair value of financial assets and liabilities measured at fair value through profit or loss, excluded derivative financial instruments, is determined based on their quoted market prices. For derivative financial instruments, the fair value is determined based on their quoted market prices if available. When market prices for the derivative financial instruments are not readily available, the fair value is based on the amounts to be received or paid assuming the contracts were settled as of the reporting date.
3. The fair value of available-for-sale financial assets is determined based on their quoted market prices except for unlisted stocks which were based on cost. If the market prices are not readily available, the fair values are based on valuation method.
4. The fair value of guaranty deposited for business operations, settlement fund and refundable deposits are estimated at their carrying amount because of the minor differences between present value and future value.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (c) The fair value of the Company's financial assets and liabilities, which were based on quoted market price in active market or determined by using certain valuation techniques were as follows:

	December 31, 2010		December 31, 2009	
	Quoted market price in active market	Determined by using certain valuation techniques	Quoted market price in active market	Determined by using certain valuation techniques
Financial assets :				
Cash and cash equivalents	\$ -	1,343,507	-	496,003
Financial assets measured at fair value through profit or loss - current	14,438,581	626,453	16,436,866	443,973
Bonds purchased under resale agreements	-	1,575,559	-	1,404,498
Receivable for securities provided as collateral	-	20,003,544	-	17,268,183
Refinancing margin	-	-	-	43,021
Receivable on refinancing collateral	-	11,845	-	78,798
Receivable for securities lending and borrowing	-	1,464	-	11,498
Security borrowing margin	-	145,926	-	143,092
Notes receivable	-	3,064	-	2,353
Accounts receivable	-	760,609	-	726,673
Other receivables	-	130,832	-	95,781
Pledged assets - current	-	359,500	-	395,500
Financial assets measured at fair value through profit or loss - non-current	259,153	-	328,272	-
Available-for sale financial assets - non-current	-	50,558	-	371,597
Held-to-maturity financial assets - non-current	-	790,885	-	790,996
Guaranty deposited for business operations	-	83,250	-	83,300
Settlement fund	-	303,995	-	270,577
Refundable deposits	-	71,738	-	298,025
Financial liabilities :				
Short-term borrowings	\$ -	1,975,027	-	2,030,000
Commercial paper payable	-	7,308,325	-	4,489,623
Financial liabilities measured at fair value through profit or loss - current	903,172	809,611	742,445	335,876
Bonds sold under repurchase agreements	-	8,351,156	-	9,438,996
Guaranty deposited for securities lent	-	1,580,004	-	2,094,369
Proceeds Payable from securities lent	-	1,870,818	-	2,410,479
Securities lending refundable deposits	-	1,250,226	-	-
Notes payable	-	901	-	21,383
Accounts payable	-	258,052	-	514,345
Other payables	-	3,094,552	-	3,785,588
Long-term liabilities - current portion	-	-	-	599,671
Other financial liabilities - current	-	302,513	-	619,494
Long-term borrowings	-	4,699,867	-	1,100,000
Other financial liabilities - non-current	-	1,265,891	-	715,510
Guarantee deposits received	-	7,163	-	5,808

- (d) As of December 31, 2010 and 2009, the Company's financial assets and liabilities with fair value risk due to interest rate fluctuation were \$29,045,559 and \$34,622,536, \$1,568,404 and \$1,332,559, respectively; financial assets and liabilities with cash flow risk due to interest rate fluctuation were \$758,329 and \$835,539, \$6,375,027 and \$3,130,000, respectively.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(e) Financial Risk Information

1. Market risk

The Company uses sensitive analysis method to measure the risk facts, such as interest rate and exchange rate... etc., of the bond investments. Regarding to the financial instruments related to the interest rate, the Company controls the ceiling of the trades using the effect to profit or loss of the investment portfolio due to interest rate fluctuation. As the result, if the market interest rate increases by 0.01%, the fair value of the bond investment is estimated to decrease by \$1,312 and \$1,662 on December 31, 2010 and 2009, respectively.

The Company uses Value at Risk (VAR) to monitor and measure the market risk of its investment in equity stocks. VAR refers to the unexpected loss of financial instruments derived from the changes in market risk factors within certain time periods and confidence level. The table below discloses the VAR, which is the estimation of one day potential loss and is covered by 99% of the adverse changes in market prices. In the table below by using this assumption, 2.5 out of 250 days VAR will exceed the disclosed amounts due to the changes in market price.

Type of market risk	December 31,	December 31,	2010			2009		
	2010	2009	Mean	Maximun	Minimum	Mean	Maximun	Minimum
Equity stocks	\$ 31,436	73,806	54,831	90,053	27,955	46,661	100,205	6,810

2. Credit risk

The Company is exposed to credit risk in events, centralization of credit risk, unit of combination, contract amount and other receivables, of default on contracts by counter-parties.

3. Liquidity risk

The Company has sufficient working capital to execute their financial instrument contracts so that the liquidity risk is minimal.

The Company's investment in securities and debt instruments are all with active markets and expects to dispose quickly by their fair value.

4. Cash flow risk from interest-rate fluctuation

The Company's short-term and long-term borrowings are charged by floating interest rate. The future cash outflows will fluctuate due to the change in market interest rate. When the market interest rate increases by 1%, the future cash outflows is estimated to increase by \$139,850 and \$82,200 for the years ended in December 31, 2010 and 2009, respectively.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(f) Financial Risk Information of Derivative Financial Instruments

As of December 31, 2010 and 2009, the related financial risk and the presentation of the Company's financial derivatives were as follows:

Stock warrants

1. Notional principal (nominal amount) and credit risk

<u>Financial Instruments</u>	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>	<u>Notional principal / Nominal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Stock warrants issued	\$ 13,544,971	-	5,881,408	-

The Company collects premium from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

2. Market Risk

Market risk of stock warrants issued arises from changes in prices of the underlying securities. Market risk can be hedged by adjusting the positions of stock warrants.

3. Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Company establishes hedging positions by collecting margins or premium prior to the issue of stock warrants, which are based on the underlying securities. Therefore there is no significant funding demand. Further, since the underlying security are restricted by certain market prices and diversification requirements, the risk of being unable to sell securities at reasonable prices is rather low, and liquidity risk is low. The only risk arises from capital demand resulting from hedged positions adjusted accordingly to changes in securities prices. However, under the assumption of good market liquidity, cash flow risk is low.

The duration of stock warrants is six months to two years from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

4. Type, purpose, and strategy of financial derivatives held

Non-trading marketable securities hedging positions are used to hedge against risk from investors' exercising of stock warrants. The Company's strategy is to avoid most of the market risk. Underlying securities used as hedging instruments exhibit highly positive correlation with the fair values of stock warrants issued, and positions held are evaluated and adjusted periodically.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

5. Presentation of financial derivatives

In 2010 and 2009, relevant transaction from issuing stock warrants, its presentation and valuation, and gain or loss on sale and expiration and settlement prior to maturity date, were reflected as follows:

In 2010:

A. Gain (loss) on valuation

	<u>Amount</u>	<u>Account</u>
Stock warrants issued	\$ (1,097,594)	Contra account to gain on stock warrants issued
Stock warrants repurchased	1,009,547	Gain on stock warrants issued

B. Gain (loss) on sale

	<u>Amount</u>	<u>Account</u>
Securities available for sale-hedging	\$ (254,952)	Loss on sale of securities available for sale
Futures	(22,219)	Loss of derivative financial instruments-futures

C. Gain (loss) on expiration

	<u>Amount</u>	<u>Account</u>
Stock warrants issued	\$ 9,785,293	Gain on stock warrants issued
Stock warrants repurchased	(9,011,134)	Contra account to gain on stock warrants issued

In 2009:

A. Gain (loss) on valuation

	<u>Amount</u>	<u>Account</u>
Stock warrants issued	\$ 1,226,400	Gain on stock warrants issued
Stock warrants repurchased	(1,184,038)	Contra account to gain on stock warrants issued

B. Gain (loss) on sale

	<u>Amount</u>	<u>Account</u>
Securities available for sale-hedging	\$ 431,015	Gain on sale of securities available for sale
Futures	(22,934)	Loss of derivative financial instruments-futures

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

C. Gain (loss) on expiration

	<u>Amount</u>	<u>Account</u>
Stock warrants issued	\$ 5,171,362	Gain on stock warrants issued
Stock warrants repurchased	(5,070,249)	Contra account to gain on stock warrants issued

Futures

1. Notional principal (nominal amount) and credit risk

<u>Financial Instruments</u>	Unit: thousands			
	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Notional principal</u> <u>/ Nominal amount</u>	<u>Credit</u> <u>Risk</u>	<u>Notional principal</u> <u>/ Nominal amount</u>	<u>Credit</u> <u>Risk</u>
For trading purpose:				
Taix Futures	\$ -	-	147,120	-
For non-trading purpose:				
Stock futures	67,528	-	-	-
Taix Futures	32,167	-	129,604	-
H-shares Index Futures	-	-	HKD 2,467	-
Heng-Seng Index Futures	-	-	HKD 2,109	-
Mini H-shares Index Futures	-	-	HKD 376	-
Mini Heng-Seng Index Futures	-	-	HKD 2,126	-
Taix Options	4,498	-	3,280	-
Stock Options	285	-	34	-

Should counterparties to stock index futures, index options and stock options default, loss is borne by futures commission merchants. Accordingly, the Company is subject to insignificant credit risk.

2. Market risk

Market risk of trading stock index futures, index options and stock options resulted from the purchase and sale of futures and options. Since the fair values of futures and options are available, and stop-loss points are established in order to manage risk, the Company can confine losses to a predictable range. Therefore there is no significant market risk.

For non-trading futures or options contracts, gain or loss from the fluctuations of index tends to offset gain and loss of the hedged items. Therefore there is no significant market risk.

3. Liquidity risk, cash flow risk, and the amount, period and uncertainty of future cash demand

The open positions of futures and options held by the Company can be settled on the market at reasonable prices, and therefore there is no liquidity risk.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Stock index futures and government bond futures are considered margin transactions. Margins are collected in advance and valued daily on open futures positions established by the Company. For margin calls, the Company has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

For options, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Company has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, no cash flow risk, and no significant cash demand.

4. Presentation of financial derivatives

In 2010 and 2009, gain (loss) on index futures and stock futures transactions amounted to \$3,200 and (\$9,484), respectively, and were reflected as gain (loss) on derivative financial instruments-futures. As of December 31, 2010 and 2009, futures margin - proprietary fund amounted to \$97,043 and \$56,873, respectively, and were reflected as financial assets measured at fair value through profit or loss - current.

In 2010 and 2009, loss on index options and stock options amounted to \$22,563 and \$12,467, respectively, and were reflected as loss on derivative financial instruments - futures. As of December 31, 2010 and 2009, the balance of call options amounted to \$716 and \$1,418, put options amounted to \$5,822 and \$60, respectively.

Derivative financial instruments - OTC

(1) Interest rate financial derivatives

A. Notional principal (nominal amount) and credit risk

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Notional principal</u>	<u>Credit</u>	<u>Notional principal</u>	<u>Credit</u>
<u>Financial Instruments</u>	<u>/ Nominal amount</u>	<u>Risk</u>	<u>amount</u>	<u>Risk</u>
For trading purpose:				
NT dollar interest swaps	\$ 107,484,437	-	144,430,000	-

Counterparties to interest rate swaps are banks with good credit ratings. The Company pays fixed and collects floating interest payments. Since the trend of interest rate is stabilized, no default is expected and credit risk is accordingly remote.

B. Market risk

Non-trading NT dollar interest rate swaps are primarily held for hedging. Gain or loss from the fluctuations of interest rate tends to offset gain and loss of the hedged items, and therefore market risk is insignificant.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

Stop-loss points are established according to the changes in the contract value of trading NT dollar interest rate swaps in order to manage risk. Loss is within prediction, and therefore there is no significant market risk.

- C. Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Company's non-trading NT dollar interest rate swaps are used to hedge against interest rate fluctuations of claims and obligations. On the settlement date, interest receivables or payables are derived from multiplying the notional principals by interest rate differences, and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand.

For trading NT dollar interest rate swaps, interest receivables or payables are derived from multiplying the notional principals by interest rate differences on the settlement date, and the amount is insignificant. Given that there is no physical transfer of principals on maturity, there is no liquidity risk, cash flow risk, or significant cash demand.

- D. Type, purpose, and strategy of financial derivatives held

The Company entered into non-trading NT dollar interest rate swaps with banks to hedge against interest rate fluctuations of claims and obligations. The Company's strategy is to avoid most of the market risk. Financial derivatives exhibiting highly negative correlation with the fair value of hedged items are used as hedging instruments and evaluated periodically.

The Company engages in trading NT dollar interest rate swaps to gain from the differences in interest rates after the Company evaluates the trend of interest rates.

2. Structured notes

- A. Notional principal (nominal amount) and credit risk

	December 31, 2010		December 31, 2009	
	Notional principal	Credit	Notional principal	Credit
<u>Financial Instruments</u>	<u>/ Nominal amount</u>	<u>Risk</u>	<u>/ Nominal amount</u>	<u>Risk</u>
For trading purpose:				
Equity-linked notes	\$ 203,908	-	427,376	-
Principal guaranteed notes	1,135,000	-	707,300	-
Credit-linked notes	243,900	-	207,700	-

The Company collects premium from investors prior to transacting in structured notes, and therefore, does not assume any credit risk.



**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

B. Market risk

For structured notes, the respective products are exercised at their fair value and the hedged items all have fair values. Therefore, there is no significant market risk of structured notes.

C Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

The Company collects premium from investors prior to transacting in structured notes therefore there is no significant liquidity risk.

3. Convertible bond asset-backed swaps

A. Notional principal (nominal amount) and credit risk

<u>Financial Instruments</u>	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Notional principal amount</u>	<u>Credit Risk</u>	<u>Notional principal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Convertible bond asset-backed swaps	\$ 347,800	-	253,200	-
Convertible bond options	3,042,100	-	1,717,900	-

Counterparties to convertible bond asset-backed swaps are institutions with good credit ratings. The Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Since the counterparties are restricted by relevant authorities regulations, and the Company maintains credit risk control over counterparties, therefore the credit risks is minimal.

For convertible bond options the Company collects premium or margins from investor prior to issuing convertible bond options, and therefore, there is no credit risk.

B. Market risk

For convertible bond asset-backed swaps, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. Therefore, there is no market risk.

For convertible bond options, since the exercise price of the convertible bonds acquired through underwriting or proprietary trading is determined on the contract date, there is no market risk.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- C. Liquidity risk, cash flow risk, and the amount, period, and uncertainty of future cash demand

Convertible bonds acquired through underwriting or proprietary trading are the underlying assets of asset-backed swaps. The underlying assets are sold to the counterparties for commission. Within the term of the contract, the Company swaps a predetermined interest rate with the interest payable and interest expense arising from the convertible bond with counterparties. The Company also receives the right to call the convertible bond prior to the expiration of the contract. Therefore, there is no significant liquidity risk or significant cash demand.

The Company collects premium or margins from investors prior to issuing convertible bond options; therefore there is no significant liquidity risk.

4. Options

- A. Notional principal (nominal amount) and credit risk

<u>Financial Instruments</u>	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Notional principal amount</u>	<u>Credit Risk</u>	<u>Notional principal amount</u>	<u>Credit Risk</u>
For trading purpose:				
Equity options	\$ 36,175	-	35,750	-

The counterparties that the Company entered into derivative transactions with are all well-known financial institutions with good credit ratings. The Company does not expect the counter-party will default. Therefore, credit risk is low.

- B. Market risk

Market risk of trading equity options results from the purchase and sale of options. Since the fair values of options are available, and stop-loss points are established in order to manage risk, the Company can confine losses to a predictable range. Therefore there is no significant market risk.

- C. Liquidity risk, cash flow risk, and the amount of future cash demand

For equity options, premiums are collected or paid in advance. If the counterparty of a short put position exercises the option, the Company has sufficient operating funds to meet the liquidity requirement. As a result, there is no liquidity risk, no cash flow risk, and no significant cash demand.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

5. Presentation of derivative financial instruments-OTC

As of December 31, 2010 and 2009, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, and convertible bond asset-backed swaps which were expressed on the balance sheets as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<u>Financial assets measured at fair value through profit or loss - current</u>		
Equity derivatives	\$ 291	2,217
Convertible bond assets-backed swaps	-	9,392
Asset swap options - long position	33,717	9,078
Structured notes	1,709	-
Total	<u>\$ 35,717</u>	<u>20,687</u>
<u>Financial liabilities measured at fair value through profit or loss - current</u>		
Asset swap options - short position	\$ 769,347	282,268
Convertible bond assets-backed swaps	6,364	-
Equity derivatives	33	4
IRS asset swaps	17,067	45,263
Structured notes	16,800	8,341
Total	<u>\$ 809,611</u>	<u>335,876</u>
	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<u>Other financial liabilities - current</u>		
Structured notes principal value	<u>\$ 302,513</u>	<u>619,494</u>
<u>current</u>		
Structured notes principal value	<u>\$ 1,265,891</u>	<u>715,510</u>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

In 2010 and 2009, relevant transaction of interest rate financial derivatives, structured notes, equity derivatives, convertible bond asset-back swaps and bond options which were expressed on statements of income as follows:

	<b>2010</b>	
	<b>Gain (loss) on derivative financial instruments - OTC</b>	<b>Unrealized Gain (loss)</b>
IRS asset swaps	\$ (11,212)	(17,067)
Equity derivatives	(4,701)	(376)
Structured notes	9,777	(2,494)
Convertible bond asset-backed swaps	(865)	(234)
Asset swap options	(429,073)	(374,061)
Bond options	147	-
<b>Total</b>	<b>\$ (435,927)</b>	<b>(394,232)</b>

	<b>2009</b>	
	<b>Gain (loss) on derivative financial instruments - OTC</b>	<b>Unrealized Gain (loss)</b>
IRS asset swaps	\$ 17,539	(45,263)
Equity derivatives	(1,335)	1,265
Structured notes	(62,061)	(3,375)
Convertible bond asset-backed swaps	(23)	34
Asset swap options	(299,019)	(117,636)
Bond options	24	-
<b>Total</b>	<b>\$ (344,875)</b>	<b>(164,975)</b>

**(22) Financial Risk Control and Hedging Strategy**

(a) Financial risk control

As risk withstanding is the essence of financial operating activity, the Company adopts risk management to achieve the balance between profit and risk. In addition, the Company controls the possible loss in the attainable scope and maximizes risk adjusted return. The Company attempts to establish well-designed risk management system to rationalize risky assets disposition and to maximize the return on stockholders in the attainable risk scope.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The risks confronted by the Company include market risk, credit risk, liquidity risk, operating risk, legal risk and other risk etc. The Company expects to control the whole risk effectively and establish a risk management system to continuously monitor the risk. The risk management system includes the set-up of an independent risk management department and whole risk management framework which comprises segregation of duties and delegation of board of directors, president, risk management department, auditing department, legal department, finance department, settlement and clearing department and other business department. The Company also established an operating strategy, capital structure, risk management policy and executive procedure by risk and operating activities. Furthermore, the Company set up a risk management information system to assist whole risk management execute effectively.

(b) Hedging strategies (financial hedging)

The Company's strategies use financial derivatives to hedge market price fluctuations in the attainable scope. The Company sets up each business quota, the capacity for tolerating risk and hedging strategy according to risk tolerance and establishes a monitoring system to understand variation of hedging position. In addition, the Company also formulates principal to conduct over or under limitations with hedging position.

1. Equity securities

As equity securities price fluctuate, the Company will suffer loss when the unfavorable variation of equity securities price is incurred. To reduce the above risk, the Company not only relies on its well-designed risk management system but also uses index futures and options to hedge the market risk of equity securities.

2. Fixed income instruments

Risk of fixed income instruments is mainly affected by the fluctuations of market rate. The Company will suffer loss when unfavorable variation of market rate is incurred. The Company uses financial derivatives such as interest rate swap, government bond futures and bond options whose variation in fair value and cash flow are negative correlated with the hedged position to hedge the market risk.

3. Stock warrants

The market risk of stock warrants issued arises from the fluctuations of market price of the underlying securities and the risk of investors' exercising of stock warrants. When the stock warrants issued, the Company will acquire the underlying securities to hedge. Furthermore, the Company will adjust the hedged position such as the underlying securities, convertible corporate bonds and stock warrants based on the dynamic hedging strategies with the variation of Delta. Also, the Company acquires the stock warrants with the same underlying securities but issued by others whose theoretical price was underestimated to hedge the fluctuations.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

4. Structured notes

Structured notes are the combination of fixed income and asset option. The market risk includes variation of interest rate, stock price and the volatility. In order to hedge the interest rate risk in the fixed income aspect, the Company uses the interest which it generates from investing to repay the principal due. In the asset option aspect, the Company establishes related hedged position to hedge the stock price and the volatility risk.

5. Asset swap

Convertible bond asset swap is the bargaining transaction, inclusive of interest rate swap and options. The related risks are market risk and credit risk of the counterparties. The Company via sold of the option part and interest rate swap with the third party and verifies counterparty's credit limit to lower the above risk.

**5. RELATED PARTY TRANSACTIONS**

**(1) Name of Related Party and Relationship with the Company**

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Capital Investment Management Corp.	Equity investee
Capital Futures Corp.	Equity investee
Capital Insurance Advisory Corp.	Equity investee
Capital Insurance Agency Corp.	Equity investee
Capital Futures Management Corp.	Equity investee
CSC International Holdings Ltd.	Equity investee
Taiwan International Securities Corporation	Equity investee
Capital Securities (Hong Kong) Ltd.	Subsidiary's equity investee
CSC Asia Ltd.	Subsidiary's equity investee
CSC Securities (HK) Ltd.	Subsidiary's equity investee
CSC Finance Ltd.	Subsidiary's equity investee
CSC Futures (HK) Ltd.	Subsidiary's equity investee
CSC Financial Service Ltd.	Subsidiary's equity investee
Taiwan International Futures Corporation	Subsidiary's equity investee
Taiwan International Securities (BVI) Corporation	Subsidiary's equity investee
Taiwan International Securities Investment & Consulting Corporation	Subsidiary's equity investee
Taiwan International Insurance Broker Corporation	Subsidiary's equity investee
Taiwan International Futures Management Corporation	Subsidiary's equity investee
First Securities (HK) Limited	Subsidiary's equity investee
First Securities (HK) Agency Limited	Subsidiary's equity investee
TIS Securities (HK) Limited	Subsidiary's equity investee
TIS Global (Asia) Financial Limited	Subsidiary's equity investee

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
TIS Finance Co., Ltd.	Subsidiary's equity investee
TIS Capital Co., Ltd.	Subsidiary's equity investee
Capital Venture Management Corp.	The chairman is the same for both companies
Capital Venture Fund II Ltd.(Note).	The chairman is the same for both companies
Fu Rui Corp.	The chairman is the same for both companies
Chung Lun Development Co., Ltd.	The chairman is the same for both companies
Tyan-Wen Chen	The chairman of the company
Other related parties	Executive vice presidents, vice presidents, senior managers and managers of the Company

(Note) Capital Venture Fund II Ltd. was dissolved and was no longer a related party to the Company since 2010.

**(2) Significant Transactions with Related Parties**

(a) Bond transactions

Bonds sold under repurchase agreements

	<u>December 31, 2010</u>		<u>2010</u>	<u>December 31, 2009</u>		<u>2009</u>
	<u>Purchase</u>		<u>Interest</u>	<u>Purchase</u>		<u>Interest</u>
	<u>Par value</u>	<u>price</u>	<u>expense</u>	<u>Par value</u>	<u>price</u>	<u>expense</u>
Summary	<u>\$ 82,400</u>	<u>96,044</u>	<u>1,388</u>	<u>365,900</u>	<u>387,958</u>	<u>3,303</u>

Transaction terms are the same as those with general clients.

Outright purchase and sale

<u>Related Parties</u>	<u>2010</u>	
	<u>Purchase</u>	<u>Sale</u>
Taiwan International Securities Corporation	<u>\$ 32,926</u>	<u>-</u>

Transaction terms are the same as those with general clients.

(b) Futures commission revenue

The Company provided futures trading assistance for Capital Futures Corp.

	<u>2010</u>	<u>2009</u>
Commission receivable	<u>\$ 7,435</u>	<u>8,666</u>
Futures commission revenue	<u>\$ 97,373</u>	<u>115,442</u>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(c) Futures trading

	2010	2009
Futures margin -proprietary fund	<u>\$ 97,043</u>	<u>56,873</u>
Interest revenue of futures margin	<u>\$ 65</u>	<u>59</u>
Clearing and settlement expenses	<u>\$ 20</u>	<u>25</u>
Handling fees	<u>\$ 4,541</u>	<u>990</u>
Account payable- clearing and settlement expense	<u>\$ -</u>	<u>5</u>

(d) Lease agreements

	2010		2009	
	Rental revenue	Guarantee deposits paid	Rental revenue	Guarantee deposits paid
Capital Futures Corp.	\$ 5,572	900	5,572	900
Capital Investment Management Corp.	840	-	840	-
Capital Insurance Advisory Corp.	216	40	216	40
Capital Insurance Agency Corp.	820	160	820	160
Capital Futures Management Corp.	815	-	1,207	300
Capital Venture Management Corp.	240	60	240	60
	<u>\$ 8,503</u>	<u>1,160</u>	<u>8,895</u>	<u>1,460</u>

(e) Information technology service

The Company provided information technology service for Capital Futures Corp..

	2010	2009
Other receivables	<u>\$ -</u>	<u>690</u>
Non-operating revenue	<u>\$ 20,105</u>	<u>23,445</u>

(f) Stock service income

In 2010 and 2009, the Company provided stock service for Capital Futures Corp., and the stock service income amounted to \$309 and \$250, respectively.

(g) Securities commission expense

The Company delegated Capital Futures Corp. for introducing brokers. As of December 31, 2010, securities commission expense payable amounted to \$105. In 2010, securities commission expenses amounted to \$263.



**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(h) Consulting fees

Capital Investment Management Corp. agreed to provide investment information, training courses, and services of publishing quarterly periodicals. In 2010 and 2009, consulting fees paid amounted to \$22,800 and \$19,200, respectively.

(i) Insurance commission income

The Company assists Capital Insurance Advisory Corp. and Capital Insurance Agency Corp. to recruit insurance contracts and charge commission income. The details were as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Commission income</u>	<u>Accounts Receivable</u>	<u>Commission income</u>	<u>Accounts Receivable</u>
Capital Insurance Advisory Corp.	\$ 796	74	602	46
Capital Insurance Agency Corp.	13,601	974	8,864	937
	<u>\$ 14,397</u>	<u>1,048</u>	<u>9,466</u>	<u>983</u>

(j) Loss on stock warrants issued

In December 2009, the Company engaged in transaction of stock warrants with Capital Securities (Hong Kong) Ltd. and recognized loss on stock warrants issued of \$7,724.

(k) Brokerage commissions

The investors of CSC Securities (HK) Ltd. traded of market securities with the Company through the trust account named "Citibank CSC Securities(HK) Trust Ltd." In 2010 and 2009, the brokerage commissions were \$6,575 and \$10,711, respectively.

(m) The Company issued Letter of Comfort to the banks which loaned to CSC International Holdings Ltd. and CSC securities (HK) Ltd.

**(3) Remunerations of major management personnel**

In 2010 and 2009, information on remunerations paid to directors, supervisors, presidents and vice presidents by the Company were as follows:

	<u>2010</u>	<u>2009</u>
Salaries	\$ 95,341	128,246
Incentives and compensation	80,597	19,222
Professional practice	2,730	2,610
Employee bonuses	3,386	6,514
	<u>\$ 182,054</u>	<u>156,592</u>

The amount mentioned above included the estimation of employee bonuses and remuneration to directors and supervisors. The estimation please refer to Note 4 (18) for details.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**6. PLEDGED ASSETS**

The following assets were pledged as collateral or restricted in use on December 31, 2010 and 2009:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>The collateral use</u>
Pledged assets - current	\$ 359,500	395,500	Bank borrowings, commercial paper and accounts settled
Bonds purchased under resale agreements(par value)	8,180,913	9,182,900	Repurchase agreement
Held-to-maturity financial assets - non-current	750,997	751,329	Guaranty deposited for business operations
Land	2,537,711	2,559,676	Bank borrowings
Buildings (net book value)	718,134	752,907	"
Financial assets measured at fair value through profit or loss - non-current	259,153	328,272	Guaranty deposited for bills, interest rate swaps business operations and settlement fund
Leased assets (net book value)	664,728	642,351	Bank borrowings
Total	<u>\$ 13,471,136</u>	<u>14,612,935</u>	

**7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

In 2010 and 2009, significant commitments and contingencies of the Company were as follows:

- (1) Information of handling margin purchase and short sale lending operations in securities trading were as follows:

	<u>December 31, 2010</u>	
	<u>Shares</u>	
	<u>(in thousands)</u>	<u>Par value</u>
Securities procured through margin purchase	1,037,373	\$ 10,373,729
Collateral for margin purchase	2,435	24,348
Collateral for short sales	6,123	61,230
Lending securities to customers through short sales	38,908	389,080

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

	<b>December 31, 2009</b>	
	<b>Shares</b>	<b>Par value</b>
	<b>(in thousands)</b>	
Securities procured through margin purchase	977,348	\$ 9,773,476
Collateral for margin purchase	4,689	46,889
Collateral for short sales	57,769	577,690
Lending securities to customers through short sales	4,392	43,920

- (2) Information of the collateral provided or the securities borrowed of refinancing margin from securities finance companies were as follows:

	<b>December 31, 2010</b>	
	<b>Shares</b>	<b>Par value</b>
	<b>(in thousands)</b>	
Securities borrowed from securities finance	82	\$ 820
Collateral for refinancing margin	862	8,620

	<b>December 31, 2009</b>	
	<b>Shares</b>	<b>Par value</b>
	<b>(in thousands)</b>	
Securities borrowed from securities finance	2,468	\$ 24,680
Collateral for refinancing margin	2,820	28,200

- (3) Information of issuing promissory notes in connection with guaranty for segregated error accounts, debt, and issuance of commercial paper were as follows:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Promissory notes	<b>\$ 25,500,000</b>	<b>22,409,000</b>
Promissory notes	<b>USD -</b>	<b>USD 5,000</b>

- (4) The Company conducted securities business money lending business and acquired customers' provided securities of 49 thousand and 353 thousand shares (par value \$490 and \$3,530) as collateral.
- (5) The management consultation agreement which signed by the Company and the former president of Da Hsin Securities Corporation stated that the Company shall pay the consultation fee based on the operation status. The Company planned to renegotiate the agreement. However, the relevant content is still under negotiation until the submission date of the financial statements.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (6) The client, Mr. Wu, declared that a resigned employee of Tung-Hu branch stole his stocks to sell and withdrew his deposit illegally. The clients filed a lawsuit against the Company alleged for taking joint responsibility of compensation for damages for \$36,000 with additional interests. The Taiwan Taipei District Court ruled in favor of the Company based on Year 2008 Chung Su No.684 verdict. Mr. Wu was unwilling accept the result and appealed to the high court. This case is currently under the review of the Taiwan High Court. According to the opinion from the attorney of the Company, the case is a personal financial dispute between customer and the former employee and has no impact to the Company.
- (7) The Company provided the Letter of Comfort for its subsidiary CSC International Holdings Ltd. and CSC securities (HK) Ltd. The Company shall maintain the management control over the debtors during the period of the loaning and insure that the debtors will fulfill the debt service obligation of the loaning contract by the end of the period of performance.

**8. SIGNIFICANT CATASTROPHIC LOSS : NONE.**

**9. SIGNIFICANT SUBSEQUENT EVENTS :**

On January 11, 2011, SFB regulations were revised by the Financial Supervisory Commission. According to the SFB Ruling Letter No.0990073857, reserve for trading losses and reserve for default losses are no longer required. The remaining balances of reserve for trading losses and default losses should be reclassified to the special reserve in 2011. The special reserve can only be used to offset deficit or reclassified as capital when they reach 50% of the amount of the issued common stock, and only one half of the amount of such special reserve may be capitalized.

**10. OTHERS**

- (1) Information regarding personnel, depreciation, and amortization expense were as follows:

Categorized as: Nature	2010			2009		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Personnel expenses						
Salary expense	-	1,846,724	1,846,724	-	1,899,263	1,899,263
Health and labor insurance expense	-	110,718	110,718	-	89,630	89,630
Pension expense	-	89,548	89,548	-	75,052	75,052
Other expense	-	56,603	56,603	-	49,194	49,194
Depreciation expense	-	141,993	141,993	-	145,454	145,454
Amortization expense	-	21,523	21,523	-	15,189	15,189

(Note)The loss from discontinued operations were not included.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(2) Information regarding significant foreign assets and liabilities were as follows:

	December 31, 2010			December 31, 2009		
	Foreign Currency (dollar)	Exchange Rate	NTD	Foreign Currency (dollar)	Exchange Rate	NTD
<b>Financial Assets</b>						
<b>Monetary Items</b>						
USD	39,849,543.82	29.13	1,160,817	91,481.10	31.99	2,927
HKD	21,354,591.00	3.750	80,080	1,222,012.44	4.126	5,043
EUR	8,171.00	38.92	318	12,114.77	46.13	559
JPY	1,592,984.00	0.3600	570	1,688,873.00	0.3473	587
GBP	194.00	45.19	9	320.39	51.63	17
AUD	7,370.00	29.68	219	4,534.21	28.79	131
SGD	23,949.00	22.73	544	17,785.29	22.83	406
SEK	32.00	31.07	1	32.30	31.05	1
CHF	26.00	4.34	-	25.51	4.50	-
VND	14,400,000,000.00	0.001440	20,736	-	-	-
	December 31, 2010			December 31, 2009		
	Foreign Currency (dollar)	Exchange Rate	NTD	Foreign Currency (dollar)	Exchange Rate	NTD
<b>Financial Assets</b>						
<b>Non-Monetary Items</b>						
USD	938,281.25	29.13	27,332	-	-	-
HKD	5,961,219.00	3.75	22,355	-	-	-
<b>Long-term investments under</b>						
USD	57,927,242.00	29.08	1,684,524	58,527,786.00	31.94	1,869,377
VND	-	-	-	28,497,919,240.00	0.001675	14,320
<b>Financial Liabilities</b>						
<b>Monetary Items</b>						
USD	40,111,881.00	29.13	1,168,459	-	-	-

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(3) Disclosure on the gain/loss and cash flows from discontinued operations:

Due to enhance the efficiency of the working capital, the board of directors resolved to terminate the concurrent operation of futures proprietary business on July 15, 2010 with effective date of August 31, 2010. The Company adopted SFAS No. 38 "Non-current Assets Held for Sale and Discontinued Operations", and the disclosure on the gain or loss and cash flows from discontinued operations were as follows:

	<u>2010</u>	<u>2009</u>
<b>Gain(Loss) from discontinued operations</b>		
Revenues		
Gain on derivative financial instruments	\$ 968	407
Other operating revenue	-	31
Non-operating revenue	839	2,937
	<u>1,807</u>	<u>3,375</u>
Expenses		
Brokerage and clearing fees -proprietary trading	6	8
Clearing and settlement expenses	20	25
Loss on derivative financial instruments	1,006	593
Operating expenses	2,074	4,094
	<u>3,106</u>	<u>4,720</u>
Loss from discontinued operations before tax	(1,299)	(1,345)
Income tax expense	-	(1,151)
Loss from discontinued operations	<u>\$ (1,299)</u>	<u>(2,496)</u>
<b>Cash flows from discontinued operations</b>		
Cash flows from operating activities	<u>\$ (445,710)</u>	<u>42,067</u>

(4) Reclassification

Certain accounts in the 2009 financial statements have been reclassified to the presentations adopted in 2010. The result of reclassification does not have significant influence on the financial statements.

- (5) On November 2, 2009, the board of directors resolved to merge An-Tie Securities Finance Co., Ltd. to strengthen working capital, improve regulatory capital adequacy ratio and increase competitiveness in the industry. The Company will be the surviving entity and An-Tie Securities Finance Co., Ltd. is the extinguished company after the merger. The stockholders of An-Tie Securities Finance Co., Ltd. can convert 1.4086 shares to 1 share of the Company's common stock. The combination and the issuance of common stock were approved by Financial Supervisory Commission, Executive Yuan (No. 0980068403 on January 18, 2010 and No. 0980071352 on January 19, 2010). On January 22, 2010, the board of directors resolved March 1, 2010 as the merger record date. After the merger, the paid-in capital increased from \$16,107,860 to \$18,796,582. The Company had completed the competent registration on April 1, 2010.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

According to SFAS No. 25 , the information disclosed as follows:

- (a) A brief introduction to the acquired company:

An-Tie Securities Finance Co., Ltd. (An-Tie Securities) were engaged in margin loans and stock loans for securities trading, loans for rights issues and subscriptions, refinancing margin to securities companies and financing for securities transaction settlement purposes.

- (b) The acquisition date, the percentage of ownership acquired, and the adoption of the purchase method of accounting for the business combination:

The board of directors of the An-Tie Securities and the Company resolved March 1, 2010 as the record date. At the record date, the shares of An-Tie Securities held by the Company will be cancelled and the Company will acquire the remaining shares (93.84%) of An-Tie Securities by issuing new shares.

- (c) The period for which results of operation of the acquired company were included in the income statement of the acquiring company:

The results of operation from January 1, 2010 to December 31, 2010 of the acquired company have been included in the Company's income statement.

- (d) Acquisition costs and the type, number of shares as well as amount of stock issued as a result of the acquisition:

Pursuant to the merger agreement, the Company will issue 268,872 shares of common stock, with a total amount of \$2,688,722. The stockholders of An-Tie Securities can convert 1.4086 shares to 1 share of the Company's common stock.

- (e) Initially recognized amount of goodwill, beginning balance of accumulated impairment, and impairment loss recognized in current period : None.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (6) Extraordinary gain, which are the remaining excess after the difference between the fair value of identifiable net assets acquired and the cost allocated to non-current assets acquired, when the fair value of identifiable net assets acquired exceeds the cost:

Cost of issued stock		3,194,202
Cash received from merger	\$ 3,168,142	
Financial assets measured at fair value through profit or loss – current	50,630	
Notes receivable	100	
Accounts receivable	3,143	
Other receivable	44,870	
Prepayments	679	
Financial assets measured at fair value through profit or loss – non-current	141,600	
Deferred income tax assets, net	74,400	
Refundable deposits	5,300	
Other payable	(423)	
Fair value of identifiable net assets		3,488,441
		(294,239)
Available-for-sale financial assets - non-current which the surviving company originally invested in the extinguished company		237,312
Extraordinary gain		(56,927)

- (7) Contingent payment, options or commitments included in the acquisition agreement and the proposed accounting treatment: None.
- (8) Significant asset disposal decision resulting from the business acquisition: None.
- (9) The proforma supplementary information for the combined results of operation of the current period and the preceding period were as follows:

	2010	2009
Operating revenue, net	\$ 6,432,227	7,416,293
Income from continuing operations	1,555,843	2,038,163
Basic earnings per share (dollar)	0.83	1.08



**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**11. DISCLOSURES REQUIRED**

(1) Information on significant transaction:

- (a) Loans to others: None.
- (b) Endorsements and guarantee for others: None.
- (c) Acquisition of real estate over \$100 millions or 20% of paid-in capital: None.
- (d) Disposal of real estate over \$100 millions or 20% of paid-in capital: None.
- (e) Discount on commissions of transactions with related parties over \$5 millions: None.
- (f) Receivables from related parties over \$100 millions or 20% of paid-in capital: None.

(2) Information on reinvestment business:

- (a) Disclosure required of investee companies: Exhibit 1.
- (b) Loans to others: Exhibit 2
- (c) Endorsements and guarantee for others: Exhibit 3.
- (d) Acquisition of real estate over \$100 millions or 20% of paid-in capital: None.
- (e) Disposal of real estate over \$100 millions or 20% of paid-in capital: None.
- (f) Discount on commissions of transactions with related parties over \$5 millions: None.
- (g) Receivables from related parties over \$100 millions or 20% of paid-in capital: None.
- (h) Transactions of financial derivatives:

Name of holding company	Financial derivatives types and name	Account classification	(In US thousands dollars)			
			December 31, 2010 Notional principal	December 31, 2010 Fair value	December 31, 2009 Notional principal	December 31, 2009 Fair value
Capital Securities (Hong Kong) Ltd.	Structured notes	Financial liabilities measured at fair value through profit or loss-current	<u>\$ 1,548</u>	<u>1,582</u>	<u>3,894</u>	<u>3,893</u>

Capital Securities (Hong Kong) Ltd. issued structured notes. In 2010 and 2009, the related net loss were HKD 1,219 thousand dollars and HKD 8,055 thousand dollars, the net profit on hedging positions were HKD 1,772 thousand dollars and HKD 5,760 thousand dollars, respectively. Capital Securities (Hong Kong) Ltd. operated financial derivatives transactions by proprietary fund. In 2010 and 2009, net loss on derivative financial instruments was HK 0 thousand dollars and HK 3,785 thousand dollars, respectively. As of December 31, 2010 and 2009, the balance of derivative financial instruments assets are \$0.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

- (3) Information on investments in China: None.
- (4) Disclosures required for securities firm investing in countries or regions without securities authority:

According to SFB No. 0920004507 dated October 31, 2003, required supplementary disclosures of the Company's investment in overseas businesses located in the British Virgin Island in 2010 were as follows:

- (a) Balance sheet and income statement:

- (i) Balance sheet

(In US thousands dollars)

Company	CSC International Holdings Ltd. 2010.12.31	TIS Global (Asia) Financial Limited 2010.12.31	Taiwan International Securities (BVI) Corporation 2010.12.31
<b>Nature</b>			
Current assets	30,439	2,898	3,417
Long-term investments	24,789	-	2,924
Property and premises	2,699	-	-
Other assets	96	32	8
<b>Total assets</b>	<b>58,023</b>	<b>2,930</b>	<b>6,349</b>
Current liabilities	80	6	2,858
Other liabilities	16	-	3,250
<b>Total liabilities</b>	<b>96</b>	<b>6</b>	<b>6,108</b>
Common stock	45,000	5,000	9,516
Retained earnings	13,019	(2,076)	(9,199)
Cumulative translation adjustments	(92)	-	(76)
<b>Total stockholders' equity</b>	<b>57,927</b>	<b>2,924</b>	<b>241</b>
<b>Total liabilities and stockholders' equity</b>	<b>58,023</b>	<b>2,930</b>	<b>6,349</b>

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(ii) Income statement

(In US thousands dollars)

Company	CSC International Holdings Ltd. 2010	TIS Global (Asia) Financial Limited 2010	Taiwan International Securities(BVI) Corporation 2010
Nature			
Operating revenue	652	-	-
Operating expense	(1,287)	(202)	(422)
Non-operating revenue	96	12	4
Non-operating expense	(2)	(6)	(257)
Loss before tax	(541)	(196)	(675)
Net loss	(541)	(196)	(675)

(b) Marketable securities held as of December 31, 2010: Exhibit 4.

(c) Transactions of financial derivatives: None.

(d) Revenue on advisory and consulting service and related lawsuit: None.

**12. BUSINESS SEGMENT FINANCIAL INFORMATION: NOT APPLICABLE.**

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 1: Disclosure required of investee companies

Ref No.	Name of investee company (Notes 1,2)	Area	Primary business operation	Original investment amount		Equity Ownership by Company (Note 3)			Net Income or loss of investee company	Investment gain or loss recognized by the Company	Note
				Ending of the period	Ending of last period	Shares	Ratio	Book value			
0	Capital Investment Management Corp.	Taipei ,Taiwan, R.O.C.	Engaged in providing advice on securities investment and related matters , or securities investment consultancy analyzing the published materials on securities investments.	72,515	72,515	7,000,000	100.00%	92,328	1,401	1,401	Subsidiary
0	Capital Futures Corp.	Taipei ,Taiwan, R.O.C.	Engaged in domestic and foreign futures business.	413,043	413,043	51,289,749	60.60%	946,411	178,162	107,968	Subsidiary
0	CSC International Holdings Ltd.	British Virgin Island	Engaged for investment or to merge and acquisition securities, futures dealing, financial and related businesses permitted by local law of the country.	1,339,555	1,339,555	45,000,000	100.00%	1,684,524	(16,531)	(16,531)	Subsidiary
0	Capital Insurance Advisory Corp.	Taipei ,Taiwan, R.O.C.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business	3,890	3,890	389,000	100.00%	5,459	18	18	Subsidiary
0	Capital Insurance Agency Corp.	Taipei ,Taiwan, R.O.C.	Manages personal insurance agent business	7,400	7,400	740,000	100.00%	40,024	21,498	22,145	Subsidiary
0	Capital Futures Management Corp.	Taipei ,Taiwan, R.O.C.	Engaged in futures management business.	5,236	38,500	523,600	38.50%	-	(3,282)	(1,268)	Subsidiary
0	Taiwan International Securities Corporation	Taipei ,Taiwan, R.O.C.	Securities brokerage, underwriting ,proprietary trading and other business.	12,248,887	-	980,184,185	90.5251%	12,189,081	2,016	(56,525)	Subsidiary
1	Capital Futures Management Corp.	Taipei ,Taiwan, R.O.C.	Engaged in futures management business.	8,364	61,500	836,400	61.50%	106	(3,282)	-	Third-level subsidiary
2	CSC International Holdings Ltd. Shanghai Rep. Office	Shanghai, China	Engaged to gather business information and to research industry technology and relevant information as permitted by local law of the country.	-	-	-	- %	-	-	-	Representative office of a subsidiary
2	CSC Asia Ltd.	Hong Kong	Fund management and investment consultation services.	HK10,000 thousand	HK10,000 thousand	1,000,000	66.67%	HK3,155 thousand	HK(2,759) thousand	-	Third-level subsidiary
2	Capital Securities (Hong Kong) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK48,644 thousand	HK48,644 thousand	4,864,400	100.00%	HK40,868 thousand	HK2,988 thousand	-	Third-level subsidiary
2	CSC Securities (HK) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK89,600 thousand	HK89,600 thousand	89,600,000	70.00%	HK116,461 thousand	HK5,749 thousand	-	Third-level subsidiary
2	CSC Finance Ltd.	Hong Kong	Securities financial business and other securities businesses permitted in local law of the country.	HK42,439 thousand	HK42,439 thousand	42,439,000	100.00%	HK32,227 thousand	HK(61) thousand	-	Third-level subsidiary
3	CSC Securities (HK) Ltd.	Hong Kong	Securities brokerage, underwriting, proprietary trading, financial businesses and other securities businesses permitted by local law of Hong Kong.	HK38,400 thousand	HK38,400 thousand	38,400,000	30.00%	HK49,912 thousand	HK5,749 thousand	-	Fourth-level subsidiary
3	CSC Asia Ltd.	Hong Kong	Fund management and investment consultation services.	HK5,000 thousand	HK5,000 thousand	500,000	33.33%	HK-	HK(2,759) thousand	-	Fourth-level subsidiary
3	CSC Futures (HK) Ltd.	Hong Kong	Futures dealing business.	HK\$20,000 thousand	HK20,000 thousand	20,000,000	100.00%	HK22,508 thousand	HK686 thousand	-	Fourth-level subsidiary
3	CSC Financial Service Ltd.	Hong Kong	Securities brokerage business.	HK5,000 thousand	HK5,000 thousand	5,000,000	100.00%	HK5,953 thousand	HK(35) thousand	-	Fourth-level subsidiary
4	Taiwan International Futures Corporation(Note 4)	Taipei ,Taiwan, R.O.C.	Management and consultation business.	429,990	-	11,999,721	99.99%	-	-	(12,182)	Third-level subsidiary
4	Taiwan International Securities (BVI) Corporation	British Virgin Island	Holding company for international securities business.	1,394,817	-	300	100.00%	7,032	US(675) thousand	-	Third-level subsidiary
4	Taiwan International Securities Investment & Consultine Corporation	Taipei ,Taiwan, R.O.C.	Securities investment and consulting business.	99,920	-	9,992,000	99.92%	113,066	3,018	-	Third-level subsidiary
4	Taiwan International Insurance Broker Corporation	Taipei ,Taiwan, R.O.C.	Engaged in personal insurance brokerage and property insurance brokerage and manages personal insurance agent business	3,435	-	315,000	70.00%	3,533	(392)	-	Third-level subsidiary
4	Taiwan International Futures Management Corporation (Note 5)	Taipei ,Taiwan, R.O.C.	Discretionary investment business-Futures .	80,000	-	8,000,000	40.00%	56,143	(13,788)	-	Third-level subsidiary
4	First Securities (HK) Limited	Hong Kong	Securities brokerage, underwriting and proprietary trading.	71,567	-	31,000,000	100.00%	50,605	HK(6,250) thousand	-	Third-level subsidiary
4	First Securities (HK) Agency Limited	Hong Kong	Agency business.	-	-	2	66.67%	-	-	-	Third-level subsidiary
5	Taiwan International Futures Management Corporation	Taipei ,Taiwan, R.O.C.	Discretionary investment business-Futures .	70,000	-	7,000,000	35.00%	49,125	(13,788)	-	Fourth-level subsidiary
6	TIS Securities (HK) Limited	Hong Kong	Securities brokerage, underwriting , investment , financial consulting business and finance business.	US\$33,849 thousand	-	264,999,999	99.99%	US(3,250) thousand	HK(394) thousand	-	Fourth-level subsidiary
6	TIS Global (Asia) Financial Limited (Note5)	British Virgin Island	Brokerage, underwriting , proprietary trading,providing advice, research and design financial instruments.	US5,000 thousand	-	5,000,000	100.00%	US2,924 thousand	US(196) thousand	-	Fourth-level subsidiary
7	TIS Finance Co., Ltd.	Hong Kong	Financing business.	HK2	-	2	100.00%	HK(1) thousand	HK-	-	Fifth-level subsidiary
7	TIS Capital Co., Ltd.	Hong Kong	Engaged for investment.	HK2	-	2	100.00%	HK(50,735) thousand	HK2,445 thousand	-	Fifth-level subsidiary

Note 1: (0) Capital Securities Corporation (1)Capital Futures Corp.(2) CSC International Holdings Ltd.(3) Capital Securities (Hong Kong) Ltd.(4) Taiwan International Securities Corporation (5)Taiwan International Futures Corporation (6) Taiwan International Securities (BVI) Corporation (7)TIS Securities (HK) Limited

Note 2: Includes the Company's investment in overseas business and its reinvestments in other businesses, etc.

Note 3: Book value is the investment balance according to equity method, including investment income (loss), cash dividends, and cumulative translation adjustment.

Note 4:The stockholders' special meeting of Taiwan International Securities Corporation resolved to dissolve the investee company on September 18, 2008. Taiwan International Securities Corporation had recognized all the impairment loss in 2006.

Note 5:The board of directors of Taiwan International Securities Corporation resolved to dissolve the investee company on December 16, 2010.

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 2: Loans to others

(In US thousands dollars)

No.	Name of the company providing Loans to Others	Party to Transactions	Account Classification	Limit on loans to a single business	Maximum Balance of the Period	Ending Balance	Range of interest Rate	Purposes of the Borrowers	Allowance of Doubtful Accounts	Collateral		Amount of Transactions	Limit on the Amount of Loans
										Name	Value		
1	CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Other receivables	50,000	18,000	13,500	-	Operations	-	-	-	-	57,927
2	CSC International Holdings Ltd.	CSC Securities (HK) Ltd.	Other receivables	50,000	12,875	12,875	-	Operations	-	-	-	-	57,927
3	Taiwan International Securities (BVI) Corporation	TIS Securities (HK) Limited	Other receivables	3,417	280	280	-	Operations	-	-	-	-	3,417
4	TIS Securities (HK) Limited	TIS Capital Co., Ltd.	Other receivables	HK1,463 thousand	HK1,463 thousand	HK1,463 thousand	-	Operations	-	-	-	-	HK1,463 thousand

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 3: Endorsements and guarantee for others

No.	Endorser:	Counter-party to endorsement guarantees		Limit of endorsement guarantee to each party	Maximum amount of endorsement guarantees during the period	End-of-period endorsement guarantees balance	Endorsement amount by property	Percentage of cumulative endorsement guarantees of net worth per the most recent financial statements	Maximum amount of endorsement guarantees
	Company Name	Company Name	Relationship with the Company						
1	CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Subsidiary, over 50% of common stocks held directly by the Company	2,802,151	US \$8,000 thousand	-	-	-	5,604,301

**CAPITAL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

Exhibit 4: Marketable securities held as of December 31, 2010

<u>Name of holding company</u>	<u>Securities types and name</u>	<u>Account classification</u>	(In US thousands dollars)	
			<u>December 31, 2010</u>	
			<u>Shares</u>	<u>Book value</u>
CSC International Holdings Ltd.	Capital Securities (Hong Kong) Ltd.	Long-term investments	4,864,400	\$ 5,259
"	CSC Securities (HK) Ltd.	"	89,600,000	14,981
"	CSC Finance Ltd.	"	42,439,000	4,145
"	CSC Asia Ltd.	"	1,000,000	404
				<u>\$ 24,789</u>
Taiwan International Securities (BVI) Corporation	TIS Securities (HK) Limited	"	264,999,999	\$ (3,250)
"	TIS Global (Asia) Financial Limited	"	5,000,000	2,924
				<u>\$ (326)</u>