

CAPITAL SECURITIES CORPORATION
BALANCE SHEETS
June 30, 2012 and 2011
(New Taiwan Dollars in Thousands, Except Share Data)

ASSETS	June 30, 2012		June 30, 2011		LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2012		June 30, 2011	
	Amount	%	Amount	%		Amount	%	Amount	%
Current Assets					Current Liabilities				
Cash and cash equivalents (Notes 2 and 4(1))	\$ 1,509,298	3	980,889	1	Short-term borrowings (Note 4(10))	\$ 1,740,000	3	5,496,475	8
Financial assets measured at fair value through profit or loss - current (Notes 2, 4(2), 4(21) and 6)	15,195,240	27	14,852,190	22	Commercial paper payable (Note 4(11))	-	-	3,346,742	5
Bonds purchased under resale agreements (Notes 2, 4(3) and 6)	2,834,678	5	2,099,865	3	Bonds sold under repurchase agreements (Notes 4(13) and 5)	14,381,399	26	10,646,090	17
Receivable for securities provided as collateral (net of allowance for doubtful accounts)	16,059,145	29	27,012,777	41	Financial liabilities measured at fair value through profit or loss - current (Notes 4(12) and 4(21))	1,533,754	3	1,486,596	2
Refinancing margin	108,164	-	-	-	Guaranty deposited for securities lent	1,832,992	3	1,584,015	2
Receivable on refinancing collateral	90,073	-	3,297	-	Proceeds payable from securities lent	2,241,953	4	1,906,351	3
Security borrowing collateral	182,851	-	-	-	Securities lending refundable deposits	1,113,348	2	912,064	1
Security borrowing margin	258,517	-	505,513	1	Notes payable	120	-	202	-
Notes receivable	5,131	-	8,818	-	Accounts payable	88,816	-	162,760	-
Accounts receivable (Notes 4(4) and 5)	669,495	1	1,253,200	2	Advance receipts	17,011	-	7,535	-
Prepayments	18,986	-	19,301	-	Receipts under custody	129,167	-	180,991	-
Other receivables	303,471	1	347,123	1	Other payables (Notes 2 and 4(14))	2,827,699	5	4,926,814	9
Pledged assets - current (Note 6)	416,000	1	428,000	1	Deferred income tax liabilities - current (Notes 2 and 4(17))	75,695	-	-	-
Deferred income tax assets - current (Notes 2 and 4(17))	-	-	338,790	1	Other financial liabilities - current (Note 4(21))	230,397	-	270,217	-
Available-for-sale financial assets - current (Notes 2 and 4(2))	1,450,524	3	-	-		<u>26,212,351</u>	<u>46</u>	<u>30,926,852</u>	<u>47</u>
	<u>39,101,573</u>	<u>70</u>	<u>47,849,763</u>	<u>73</u>	Long-Term Liabilities				
Funds and Long-Term Investments					Long-term borrowings (Note 4(15))	299,963	1	4,199,902	6
Long-term investments under equity method (Notes 2 and 4(5))	2,865,878	6	3,021,244	5	Other financial liabilities - non-current(Note 4(21))	457,291	1	1,174,442	2
Available-for-sale financial assets - non-current (Notes 2 and 4(2))	646,539	1	646,882	1	Other long-term liabilities	47,691	-	50,823	-
Held-to-maturity financial assets - non-current (Notes 2, 4(2) and 6)	-	-	790,827	1		<u>804,945</u>	<u>2</u>	<u>5,425,167</u>	<u>8</u>
Financial assets measured at fair value through profit or loss - non-current (Notes 2, 4(2), 4(21) and 6)	223,603	-	208,224	-	Other Liabilities				
	<u>3,736,020</u>	<u>7</u>	<u>4,667,177</u>	<u>7</u>	Guarantee deposits received (Note 5)	17,970	-	16,509	-
Premises and Property (Notes 2, 4(6) and 6)					Accrued pension liabilities - non-current (Notes 2 and 4(16))	265,253	1	241,710	-
Land	4,106,706	7	4,376,666	7	Other liabilities (Notes 7(8))	130,507	-	173,000	-
Buildings	2,178,884	4	2,355,796	4		<u>413,730</u>	<u>1</u>	<u>431,219</u>	<u>-</u>
Equipment	483,756	1	504,605	1	Brokerage accounts, net (Note 4(9))	8,606	-	-	-
Prepayment for equipment	27,458	-	73,440	-	Total Liabilities	<u>27,439,632</u>	<u>49</u>	<u>36,783,238</u>	<u>55</u>
Leasehold improvements	249,914	-	237,559	-	Stockholders' Equity				
	<u>7,046,718</u>	<u>12</u>	<u>7,548,066</u>	<u>12</u>	Common stock, par value \$10 per share, 3,000,000 thousand shares authorized, 2,369,073 and 2,334,062 thousand shares issued and outstanding, respectively (Note 4(18))	23,690,730	42	23,340,621	36
Less: Accumulated depreciation	(1,223,234)	(2)	(1,173,205)	(2)	Stock dividend to be distributed (Note 4(18))	-	-	350,109	1
	<u>5,823,484</u>	<u>10</u>	<u>6,374,861</u>	<u>10</u>	Capital surplus				
Intangible Assets (Notes 2, and 4(7))					Premium from stock issuance	1,940,208	4	1,940,208	3
Goodwill	3,126,698	6	3,135,346	5	Treasury stock transactions (Note 4(19))	107,031	-	107,031	-
Deferred pension cost	9,846	-	7,471	-	Long-term investments	29,534	-	29,534	-
Other intangible assets	403,095	1	406,512	1	Paid-in capital from merger (Note 1)	658,234	1	658,234	1
	<u>3,539,639</u>	<u>7</u>	<u>3,549,329</u>	<u>6</u>	Retained earnings				
Other Assets					Legal reserve	500,532	1	419,092	1
Guaranty deposited for business operations	1,246,648	2	497,553	1	Special reserve (Note 2)	1,277,967	2	1,136,038	2
Settlement fund	179,719	-	420,314	1	Unappropriated earnings (Notes 4(17) and 4(18))	539,623	1	693,477	1
Refundable deposits	116,967	-	101,242	-	Cumulative translation adjustments (Note 2)	(17,397)	-	(74,710)	-
Deferred debits	43,981	-	54,957	-	Net loss not recognized as pension cost	(33,664)	-	-	-
Other pledged assets - non-current (Note 6)	131,439	-	147,228	-	Unrealized gain or loss on financial instruments	(62,524)	-	539	-
Leased assets (net of accumulated depreciation) (Notes 2 and 6)	1,344,277	3	931,854	1		<u>28,630,274</u>	<u>51</u>	<u>28,600,173</u>	<u>45</u>
Idle assets - land (Notes 2 and 6)	38,658	-	9,904	-	Total Stockholders' Equity				
Deferred income tax assets - non-current (Notes 2 and 4(17))	750,709	1	620,957	1	Significant commitments and contingencies				
Others (net of allowance for doubtful accounts) (Notes 2 and 4(8))	16,792	-	255	-					
	<u>3,869,190</u>	<u>6</u>	<u>2,784,264</u>	<u>4</u>					
Brokerage accounts, net (Note 4(9))	-	-	158,017	-					
	<u>\$ 56,069,906</u>	<u>100</u>	<u>65,383,411</u>	<u>100</u>	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 56,069,906</u>	<u>100</u>	<u>65,383,411</u>	<u>100</u>

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF INCOME
Years Ended June 30, 2012 and 2011
(New Taiwan Dollars in Thousands, Except Earnings Per Share Data)

	Jan. 1~ June 30, 2012		Jan. 1~ June 30, 2011	
	Amount	%	Amount	%
Revenues:				
Brokerage commissions	\$ 1,255,520	39	1,258,163	36
Underwriting commissions	103,319	3	90,930	3
Gain on sale of trading securities - proprietary trading	-	-	88,979	2
Gain on sale of trading securities - underwriting	10,275	-	-	-
Securities management, distribution, and management fees	78,914	3	49,762	1
Interest revenue	639,874	20	771,252	21
Dividend revenue	4,089	-	21,338	1
Gain on valuation of trading securities	302,479	10	-	-
Gain on covering of borrowed securities and bonds with resale agreements	-	-	8,285	-
Gain on valuation of borrowed securities and bonds with resale agreements	-	-	3,249	-
Gain on stock warrants issued (Note 4(21))	398,728	13	745,510	21
Futures commission revenue (Note 5)	43,596	1	52,594	1
Gain on derivative financial instruments - futures (Note 4(21))	-	-	4,527	-
Gain on derivative financial instruments - OTC (Note 4(21))	-	-	213,768	6
Other operating revenue	125,546	4	133,472	4
Non-operating revenue (Note 5)	162,958	5	150,238	4
Investment income under the equity method (Note 4(5))	68,488	2	-	-
	<u>3,193,786</u>	<u>100</u>	<u>3,592,067</u>	<u>100</u>
Expenses:				
Brokerage fees	74,873	3	82,412	3
Brokerage and clearing fees - proprietary trading	3,638	-	6,241	-
Clearing and exchange fees - refinancing	1,230	-	770	-
Clearing and exchange fees - underwriting	1,646	-	3,033	-
Loss on sale of trading securities - proprietary trading	85,803	3	-	-
Loss on sale of trading securities - underwriting	-	-	6,065	-
Loss on sale of trading securities - hedging	149,312	5	1,652	1
Interest expense (Note 5)	71,156	2	87,136	2
Loss on valuation of trading securities	-	-	685,917	19
Loss on covering of borrowed securities and bonds with resale agreements	6,730	-	-	-
Loss on on valuation of borrowed securities and bonds with resale agreements	28,815	1	-	-
Stock warrant issuance expense	30,134	1	34,913	1
Securities commission expense(Note 5)	955	-	1,733	-
Loss on derivative financial instruments - futures (Note 4(21))	38,886	1	-	-
Loss on derivative financial instruments - OTC (Note 4(21))	67,235	2	-	-
Operating expenses (Note 5)	1,990,176	62	1,754,838	49
Other operating expenses	6,255	-	6,070	-
Non-operating expenses	11,539	-	11,732	-
Investment loss under the equity method (Note 4(5))	-	-	46,839	1
	<u>2,568,383</u>	<u>80</u>	<u>2,729,351</u>	<u>76</u>
Continuing operations' income before tax	<u>625,403</u>	<u>20</u>	<u>862,716</u>	<u>24</u>
Income tax expense(Notes 2 and 4(17))	<u>127,302</u>	<u>4</u>	<u>227,789</u>	<u>6</u>
Net income	<u>\$ 498,101</u>	<u>16</u>	<u>634,927</u>	<u>18</u>
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Basic earnings per share (Note 4(20))	<u>\$ 0.26</u>	<u>0.21</u>	<u>0.37</u>	<u>0.27</u>
Basic earnings per share - retroactively stated (Note 4(20))			<u>0.37</u>	<u>0.27</u>
Diluted earnings per share (Note 4(20))	<u>\$ 0.26</u>	<u>0.21</u>	<u>0.37</u>	<u>0.27</u>
Diluted earnings per share - retroactively stated (Note 4(20))			<u>0.37</u>	<u>0.27</u>

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended June 30, 2012 and 2011
(New Taiwan Dollars in Thousands)

	Capital			Retained earnings			Shareholder's equity - other items			Total
	Common stock	Stock dividends to be distributed	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustments	Net loss not recognised as pension costs	Unrealized gain (loss) on financial instruments	
Beginning balance, January 1, 2011	\$ 23,057,225	-	2,598,127	254,533	509,066	1,660,446	(58,001)	-	111	28,021,507
Issue common stock through merger	283,396	-	136,880	-	-	-	-	-	-	420,276
Net income for the six months ended June 30, 2011	-	-	-	-	-	634,927	-	-	-	634,927
Appropriation of 2010 earnings (Note 2) :										
Legal reserve	-	-	-	164,559	-	(164,559)	-	-	-	-
Special Reserve	-	-	-	-	387,010	(387,010)	-	-	-	-
Cash dividends	-	-	-	-	-	(700,218)	-	-	-	(700,218)
Capital increase from retained earnings	-	350,109	-	-	-	(350,109)	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(16,709)	-	-	(16,709)
Adjustment from changes in equity recognized under equity method	-	-	-	-	54,778	-	-	-	428	55,206
Adjustment for reserve of default & trading loss to special reserve	-	-	-	-	185,184	-	-	-	-	185,184
Ending balance, June 30, 2011	<u>\$ 23,340,621</u>	<u>350,109</u>	<u>2,735,007</u>	<u>419,092</u>	<u>1,136,038</u>	<u>693,477</u>	<u>(74,710)</u>	<u>-</u>	<u>539</u>	<u>28,600,173</u>
Beginning balance, January 1, 2012	\$ 23,690,730	-	2,735,007	419,092	1,136,038	872,948	(183)	(33,664)	(3,093)	28,816,875
Net income for the six months ended June 30, 2012	-	-	-	-	-	498,101	-	-	-	498,101
Appropriation of 2011 earnings (Note 2) :										
Legal reserve	-	-	-	81,440	-	(81,440)	-	-	-	-
Special Reserve	-	-	-	-	162,880	(162,880)	-	-	-	-
Cash dividends	-	-	-	-	-	(592,268)	-	-	-	(592,268)
Indemnification to stockholders due to merger (Note 10(3))	-	-	-	-	-	(15,789)	-	-	-	(15,789)
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(59,431)	(59,431)
Foreign currency translation adjustments	-	-	-	-	-	-	(17,214)	-	-	(17,214)
Reversal of special reserve	-	-	-	-	(20,951)	20,951	-	-	-	-
Ending balance, June 30, 2012	<u>\$ 23,690,730</u>	<u>-</u>	<u>2,735,007</u>	<u>500,532</u>	<u>1,277,967</u>	<u>539,623</u>	<u>(17,397)</u>	<u>(33,664)</u>	<u>(62,524)</u>	<u>28,630,274</u>

Note 1 : The remuneration to directors and supervisors and the employee bonuses were \$45,175 and \$33,882 which were deducted from the statement of income, respectively.

Note 2 : The remuneration to directors and supervisors and the employee bonuses were \$25,474 and \$19,105 which were deducted from the statement of income, respectively.

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

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011
(New Taiwan Dollars in Thousands)

	Jan. 1~ June 30, 2012	Jan. 1~ June 30, 2011
Cash flows from operating activities:		
Net income	\$ 498,101	634,927
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation expense	95,246	77,281
Amortization	18,650	14,473
Amortization of financial assets	-	58
Amortization of discount on commercial paper payable - long term	104	-
Investment loss (gain) under the equity method	(68,488)	46,839
Loss (gain) on disposal of premises and property	212	(40)
Loss (gain) on disposal of long term investment under equity method	(143)	-
Loss (gain) on valuation of trading securities	(302,479)	685,917
Net changes of operating assets and liabilities:		
Net changes of operating assets:		
Decrease in financial assets measured at fair value through profit or loss - current	74,944	606,671
Increase in bonds purchased under resale agreements	(1,831,344)	(524,306)
Decrease in receivable for securities provided as collateral	1,637,654	2,904,954
Decrease (increase) in refinancing margin	(103,529)	2,215
Decrease (increase) in receivable on refinancing collateral	(77,355)	10,392
Decrease (increase) in receivable for securities borrowing and lending	-	1,464
Increase in receivable for securities borrowing and lending	(182,851)	-
Decrease (increase) in security borrowing margin	676,267	(359,587)
Decrease (increase) in notes receivable	279	(2,639)
Decrease (increase) in accounts receivable	691,144	(250,282)
Decrease in prepayments	11,888	43,739
Decrease (increase) in other receivables	62,955	(64,403)
Decrease in pledged assets	12,000	494,500
Deferred income tax assets and liabilities, net	121,456	223,468
Increase in available-for-sale financial assets - current	(1,512,260)	-
Decrease (increase) in other assets	(8,563)	90
Brokerage accounts , net	376,850	(23,972)
Changes in operating assets:	(50,465)	3,062,304
Net changes of operating liabilities:		
Increase in bonds sold under repurchase agreements	2,787,297	2,294,934
Increase (decrease) in financial liabilities measured at fair value through profit or loss - current	320,958	(226,187)
Increase (decrease) in guaranty deposited for securities lent	(896,693)	(279,279)
Increase (decrease) in proceeds payable from securities lent	(1,011,706)	(284,280)
Decrease in securities lending refundable deposits	(1,406,644)	(338,162)
Increase (decrease) in notes payable	(745)	(23,672)
Increase (decrease) in accounts payable	1,783	(103,353)
Increase (decrease) in advance receipts	3,866	(5,423)
Increase (decrease) in receipts under custody	(5,212)	(18,211)
Increase (decrease) in other payables	(898,353)	(778,557)
Increase in accrued pension liabilities - non-current	377	3,925
Decrease in other financial liabilities	(1,365,002)	(123,745)
Increase (decrease) in guarantee deposits received	(597)	-
Increase (decrease) in other liabilities	(33,039)	-
Changes in operating liabilities:	(2,503,710)	117,990
Net cash provided by (used in) operating activities	(2,312,972)	4,639,749

CAPITAL SECURITIES CORPORATION
STATEMENTS OF CASH FLOWS (CONT'D)
Years Ended June 30, 2012 and 2011
(New Taiwan Dollars in Thousands)

	<u>Jan. 1~ June 30, 2012</u>	<u>Jan. 1~ June 30, 2011</u>
Cash flows from investing activities:		
Repayment from maturity of held-to-maturity financial assets	\$ 290,000	-
Purchase of long term investments under the equity method	-	(146)
Proceeds from capital return of investments under the equity method	93,388	-
Purchase of premises and property	(27,165)	(98,821)
Proceeds from sale of premises and property	151	40
Decrease (increase) in leased asset	(120)	-
Decrease (increase) in guaranty deposited for business operations	(261,356)	216,652
Decrease (increase) in settlement fund	240,595	62,055
Decrease (increase) in refundable deposits	(16,743)	2,542
Increase in deferred debits	(852)	(11,643)
Cash transfer from merger	-	205,915
Cash payment for merger	-	(861,861)
Net cash provided by (used in) investing activities	<u>317,898</u>	<u>(485,267)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	585,000	1,694,448
Decrease in commercial paper payable	-	(5,711,583)
Reimburse in long-term borrowings	-	(499,965)
Net cash provided by (used in) financing activities	<u>585,000</u>	<u>(4,517,100)</u>
Increase (decrease) in cash and cash equivalents	(1,410,074)	(362,618)
Cash and cash equivalents, beginning of the year	2,919,372	1,343,507
Cash and cash equivalents, end of this period	<u>\$ 1,509,298</u>	<u>980,889</u>
Supplemental disclosures of cash flows information:		
Cash paid during the six months period for interest	<u>\$ 71,863</u>	<u>85,600</u>
Cash paid during the six months period for income taxes	<u>\$ 773,121</u>	<u>314,217</u>
Material item not affecting investing and financing activities		
Cash dividend receivable	<u>\$ 149,488</u>	<u>-</u>
Cash dividend payment	<u>\$ 592,268</u>	<u>700,218</u>

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