

PRESIDENT SECURITIES CORPORATION
NON-CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT ACCOUNTANTS
JUNE 30, 2012 AND 2011

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

Report of Independent Accountants Translated from Chinese

PWCR12000051

To the Board of Directors and Shareholders of President Securities Corporation

We have audited the accompanying non-consolidated balance sheets of President Securities Corporation as of June 30, 2012 and 2011, and the related non-consolidated statements of income, of changes in shareholders' equity and of cash flows for the six-month periods 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 conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of President Securities Corporation as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the six-month periods then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Firms", "Rules Governing the Preparation of Financial Statements by Futures Commission Merchants", and generally accepted accounting principles in the Republic of China.

We have also reviewed the consolidated financial statements of President Securities Corporation and its subsidiaries (not presented herein) as of and for the six-month periods ended June 30, 2012 and 2011. In our report dated August 23, 2012, we expressed an unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers, Taiwan

August 23, 2012

The accompanying non-consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying non-consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept liability for the use of, or reliance on, the English translation or for any errors or misunderstanding that may derive from the translation.

PRESIDENT SECURITIES CORPORATION
NON-CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| ASSETS | Note | 2012 | | 2011 | |
|---|--------------------|----------------------|------------|----------------------|------------|
| | | Amount | % | Amount | % |
| <u>Current assets</u> | | | | | |
| Cash and cash equivalents | 4 (1) and 10 | \$ 2,396,853 | 6 | \$ 1,638,242 | 4 |
| Financial assets at fair value through profit or loss - current | 4 (2), 5, 6 and 10 | 15,899,847 | 38 | 13,587,859 | 29 |
| Bonds purchased under resale agreements | 4 (4) and 10 | 50,321 | - | 878,052 | 2 |
| Margin loans receivable | 4 (5) | 10,293,025 | 25 | 17,014,943 | 36 |
| Refinancing security deposits | | 54,084 | - | 120 | - |
| Receivables from refinance guaranty | | 45,998 | - | 3,229 | - |
| Receivables from security lending | | 78,339 | - | 117,349 | - |
| Security lending deposits | | 70,766 | - | 106,032 | - |
| Notes receivable | | 3,779 | - | 2,170 | - |
| Accounts receivable - net | 5 | 1,421,986 | 4 | 377,540 | 1 |
| Prepayments | 5 | 22,960 | - | 20,557 | - |
| Prepaid pension expenses - current | 4 (14) | 139,469 | - | 120,107 | - |
| Other receivables | 5 | 1,256,162 | 3 | 538,482 | 1 |
| Restricted assets | 4 (1) and 6 | 1,821,623 | 4 | 2,270,268 | 5 |
| Deferred tax assets - current | 4 (23) | 20,248 | - | 15,626 | - |
| Available-for-sale financial assets - current | 4 (3) and 10 | <u>691,525</u> | <u>2</u> | <u>2,059,942</u> | <u>5</u> |
| Total current assets | | <u>34,266,985</u> | <u>82</u> | <u>38,750,518</u> | <u>83</u> |
| <u>Funds and investments</u> | | | | | |
| Investments accounted for under the equity method | 4 (6) | 3,508,855 | 9 | 3,528,552 | 8 |
| Available-for-sale financial assets - non - current | 4 (3) | 52,844 | - | 82,123 | - |
| Financial assets at fair value through profit or loss - non - current | 4 (2), 6 and 10 | <u>51,263</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total funds and investments | | <u>3,612,962</u> | <u>9</u> | <u>3,610,675</u> | <u>8</u> |
| <u>Fixed assets</u> | | | | | |
| | 6 | | | | |
| Land | | 1,573,570 | 4 | 1,517,335 | 3 |
| Buildings | | 1,025,395 | 3 | 991,227 | 2 |
| Equipment | | 183,405 | - | 490,790 | 1 |
| Prepayments for equipment | | 22,390 | - | 12,222 | - |
| Leasehold improvements | | 80,129 | - | 58,062 | - |
| Less: accumulated depreciation | | <u>(400,263)</u> | <u>(1)</u> | <u>(661,109)</u> | <u>(1)</u> |
| Total fixed assets | | <u>2,484,626</u> | <u>6</u> | <u>2,408,527</u> | <u>5</u> |
| <u>Other assets</u> | | | | | |
| Operating guarantee deposits | 6 and 10 | 702,000 | 2 | 702,000 | 1 |
| Exchange clearing deposits | 5 and 10 | 286,961 | 1 | 427,941 | 1 |
| Deposits-out | 5, 6 and 10 | 66,932 | - | 149,733 | - |
| Rental assets | 5 | 250,056 | - | 251,915 | 1 |
| Idle assets | 6 | 38,297 | - | 124,476 | - |
| Deferred tax assets - non-current | 4 (23) | <u>1,088</u> | <u>-</u> | <u>1,340</u> | <u>-</u> |
| Total other assets | | <u>1,345,334</u> | <u>3</u> | <u>1,657,405</u> | <u>3</u> |
| Securities brokerage debit accounts - net | 4 (25) | <u>43,299</u> | <u>-</u> | <u>329,518</u> | <u>1</u> |
| TOTAL ASSETS | | <u>\$ 41,753,206</u> | <u>100</u> | <u>\$ 46,756,643</u> | <u>100</u> |

(Continued)

PRESIDENT SECURITIES CORPORATION
NON-CONSOLIDATED BALANCE SHEETS
JUNE 30, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | <u>Note</u> | <u>2012</u> | | <u>2011</u> | |
|--|-----------------|----------------------|------------|----------------------|------------|
| | | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| <u>Current liabilities</u> | | | | | |
| Short-term loans | 4 (7) and 10 | \$ 2,900,000 | 7 | \$ 8,150,000 | 17 |
| Commercial papers payable | 4 (8) and 10 | 4,398,672 | 11 | 5,448,382 | 12 |
| Bonds sold under repurchase agreements | 4 (9), 6 and 10 | 7,938,482 | 19 | 6,298,475 | 13 |
| Financial liabilities at fair value through profit or loss - current | 4 (10) and 10 | 351,521 | 1 | 601,967 | 1 |
| Deposits on short sales | | 806,293 | 2 | 1,075,035 | 2 |
| Short sale proceeds payable | | 986,083 | 2 | 1,277,025 | 3 |
| Guarantee deposit received on borrowed securities | | 420,324 | 1 | 959,120 | 2 |
| Accounts payable | | 790,601 | 2 | 224,084 | 1 |
| Advance receipts | | 152 | - | 2,119 | - |
| Collections on behalf of third parties | | 250,090 | 1 | 348,460 | 1 |
| Other payables | 4 (11) | 1,455,783 | 3 | 1,532,583 | 3 |
| Other financial liabilities - current | 4 (12) and 10 | <u>126,198</u> | <u>-</u> | <u>235,669</u> | <u>1</u> |
| Total current liabilities | | <u>20,424,199</u> | <u>49</u> | <u>26,152,919</u> | <u>56</u> |
| <u>Other liabilities</u> | | | | | |
| Deposits-in | 5 and 10 | <u>22,391</u> | <u>-</u> | <u>29,567</u> | <u>-</u> |
| <u>Total liabilities</u> | | <u>20,446,590</u> | <u>49</u> | <u>26,182,486</u> | <u>56</u> |
| <u>SHAREHOLDERS' EQUITY</u> | | | | | |
| <u>Capital</u> | | | | | |
| Common stock | | 12,845,816 | 31 | 12,319,334 | 26 |
| Stock dividend distributable | 4 (17) | 385,375 | 1 | 727,122 | 2 |
| <u>Capital reserve</u> | | | | | |
| Common stock | | 25,524 | - | 179,674 | - |
| Treasury stock | | 230,152 | 1 | 224,453 | 1 |
| <u>Retained earnings</u> | | | | | |
| Legal reserve | 4 (19) | 1,960,557 | 5 | 1,903,868 | 4 |
| Special reserve | 4 (20) | 5,482,607 | 13 | 5,198,754 | 11 |
| Unappropriated earnings | 4 (21) | 597,733 | 1 | 215,759 | - |
| <u>Other adjustments to shareholders' equity</u> | | | | | |
| Cumulative translation adjustments | | (236,551) | (1) | (315,028) | (1) |
| Treasury stock | 4 (22) | - | - | (194,941) | - |
| Unrealized gain or loss on financial instruments | 4 (3) | <u>15,403</u> | <u>-</u> | <u>315,162</u> | <u>1</u> |
| <u>Total shareholders' equity</u> | | <u>21,306,616</u> | <u>51</u> | <u>20,574,157</u> | <u>44</u> |
| <u>Commitments</u> | | | | | |
| | 7 | | | | |
| <u>Other disclosure Items</u> | | | | | |
| | 11 | | | | |
| <u>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | <u>\$ 41,753,206</u> | <u>100</u> | <u>\$ 46,756,643</u> | <u>100</u> |

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

PRESIDENT SECURITIES CORPORATION
NON-CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS
EXCEPT FOR EARNINGS PER SHARE AMOUNT)

| | Note | 2012 | | 2011 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|-----------------------|---------------------|--------------|---------------------|--------------|--|--------|-------|--------|-------|--|------------|------------|------------|------------|---|--------|--|--|--|------------|---------|---------|---------|---------|---|--|--|--|--|------------|---------|---------|---------|---------|
| | | Amount | % | Amount | % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revenues | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Securities brokerage fees | | \$ 743,764 | 34 | \$ 1,001,323 | 43 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Security lending | | 17,505 | 1 | 24,354 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Underwriting fees | | 50,500 | 2 | 10,635 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gain on trading of securities - dealer | 4(2), (3), (27) and 5 | 173,595 | 8 | 67,110 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gain on trading of securities - underwriter | 4(2), (3) and (27) | 29,627 | 1 | 15,886 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Stock custodian income | 5 | 44,002 | 2 | 40,238 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Interest income | 10 | 421,008 | 19 | 607,893 | 26 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Dividend income | | 13,739 | 1 | 30,945 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gain on valuation of trading securities | 4(2) | 111,525 | 5 | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gain on short covering and trading securities - RS financing covering | | - | - | 2,933 | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gain on valuation of borrowed securities and bonds with resale agreements | | - | - | 2,397 | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gain on warrants issuance | 10 | 66,233 | 3 | 231,118 | 10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Commissions on futures | 5 | 30,348 | 2 | 34,837 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gain on derivative financial instruments - futures | 10 | 291,571 | 13 | 96,567 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other operating income | 5 | 18,778 | 1 | 21,542 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-operating income | 4(6), (28), 5 and 10 | 182,524 | 8 | 123,640 | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <u>2,194,719</u> | <u>100</u> | <u>2,311,418</u> | <u>100</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Expenses | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Handling charges - brokerage | | (52,410) | (2) | (77,159) | (3) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Handling charges - dealing | | (38,146) | (2) | (54,828) | (3) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Service charges - refinancing | | (619) | - | (710) | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on trading of securities - hedging | 4 (2), (3) and (27) | (21,107) | (1) | (95,230) | (4) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Interest expense | | (37,712) | (2) | (17,831) | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on valuation of trading securities | 4 (2) | - | - | (138,271) | (6) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on short covering and trading securities - RS financing covering | | (5,771) | - | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on valuation of borrowed securities and bonds with resale agreements | | (15,925) | (1) | - | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Warrants issuance expenses | | (9,564) | - | (20,323) | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Securities commission fees | | (349) | - | (62) | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Clearing charges | 5 | (16,108) | (1) | (25,625) | (1) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loss on derivative financial instruments - OTC | 10 | (31,895) | (1) | (53,279) | (2) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Operating expenses | 4 (26) and 5 | (1,283,819) | (59) | (1,464,561) | (63) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other operating expenses | | (578) | - | (1,331) | - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-operating expenses | 4 (29) | (43,466) | (2) | (88,414) | (4) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <u>(1,557,469)</u> | <u>(71)</u> | <u>(2,037,624)</u> | <u>(88)</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Income before income tax | | 637,250 | 29 | 273,794 | 12 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Income tax expense | 4 (23) | (50,114) | (2) | (73,504) | (3) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net income | | <u>\$ 587,136</u> | <u>27</u> | <u>\$ 200,290</u> | <u>9</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>Before</th> <th>After</th> <th>Before</th> <th>After</th> </tr> <tr> <th></th> <th>Income tax</th> <th>Income tax</th> <th>Income tax</th> <th>Income tax</th> </tr> </thead> <tbody> <tr> <td>Basic earnings per share (in dollars)</td> <td>4 (24)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Net income</td> <td>\$ 0.48</td> <td>\$ 0.44</td> <td>\$ 0.21</td> <td>\$ 0.15</td> </tr> <tr> <td>Diluted earnings per share (in dollars)</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Net income</td> <td>\$ 0.48</td> <td>\$ 0.44</td> <td>\$ 0.21</td> <td>\$ 0.15</td> </tr> </tbody> </table> | | | | | | | Before | After | Before | After | | Income tax | Income tax | Income tax | Income tax | Basic earnings per share (in dollars) | 4 (24) | | | | Net income | \$ 0.48 | \$ 0.44 | \$ 0.21 | \$ 0.15 | Diluted earnings per share (in dollars) | | | | | Net income | \$ 0.48 | \$ 0.44 | \$ 0.21 | \$ 0.15 |
| | Before | After | Before | After | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Income tax | Income tax | Income tax | Income tax | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Basic earnings per share (in dollars) | 4 (24) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net income | \$ 0.48 | \$ 0.44 | \$ 0.21 | \$ 0.15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Diluted earnings per share (in dollars) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Net income | \$ 0.48 | \$ 0.44 | \$ 0.21 | \$ 0.15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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

PRESIDENT SECURITIES CORPORATION
NON-CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Capital | | | Retained earnings | | | Cumulative translation adjustments | Treasury stock | Unrealized gain or loss on financial instruments | Total |
|---|----------------------|------------------------------|-------------------|---------------------|---------------------|-------------------------|------------------------------------|---------------------|--|----------------------|
| | Common stock | Stock dividend distributable | Capital reserve | Legal reserve | Special reserve | Unappropriated earnings | | | | |
| Balance at January 1, 2011 | \$ 12,319,334 | \$ - | \$ 399,809 | \$ 1,723,534 | \$ 4,527,183 | \$ 1,812,870 | (\$ 285,973) | (\$ 291,722) | \$ 256,992 | \$ 20,462,027 |
| Appropriations of 2010 earnings: | | | | | | | | | | |
| Legal reserve | - | - | - | 180,334 | - | (180,334) | - | - | - | - |
| Special reserve | - | - | - | - | 320,366 | (320,366) | - | - | - | - |
| Cash dividends | - | - | - | - | - | (569,579) | - | - | (569,579) | - |
| Stock dividends | - | 727,122 | - | - | - | (727,122) | - | - | - | - |
| Net income for the six-month period ended June 30, 2011 | - | - | - | - | - | 200,290 | - | - | - | 200,290 |
| Unrealized gain on financial instruments | - | - | - | - | - | - | - | - | 58,170 | 58,170 |
| Cumulative translation adjustments | - | - | - | - | - | - | (29,055) | - | (29,055) | - |
| Reserve for trading loss and default transferred to special reserve (including investees) | - | - | - | - | 351,205 | - | - | - | - | 351,205 |
| Treasury stock transactions | - | - | 4,318 | - | - | - | - | 96,781 | - | 101,099 |
| Balance at June 30, 2011 | <u>\$ 12,319,334</u> | <u>\$ 727,122</u> | <u>\$ 404,127</u> | <u>\$ 1,903,868</u> | <u>\$ 5,198,754</u> | <u>\$ 215,759</u> | <u>(\$ 315,028)</u> | <u>(\$ 194,941)</u> | <u>\$ 315,162</u> | <u>\$ 20,574,157</u> |
| Balance at January 1, 2012 | \$ 12,845,816 | \$ - | \$ 409,826 | \$ 1,903,868 | \$ 5,198,754 | \$ 582,364 | (\$ 211,249) | \$ - | \$ 11,794 | \$ 20,741,173 |
| Appropriations of 2011 earnings: | | | | | | | | | | |
| Legal reserve | - | - | - | 56,689 | - | (56,689) | - | - | - | - |
| Special reserve | - | - | - | - | 283,853 | (283,853) | - | - | - | - |
| Stock dividends | - | 231,225 | - | - | - | (231,225) | - | - | - | - |
| Net income for the six-month period ended June 30, 2012 | - | - | - | - | - | 587,136 | - | - | - | 587,136 |
| Stock dividends from capital reserve | - | 154,150 | (154,150) | - | - | - | - | - | - | - |
| Unrealized gain on financial instruments | - | - | - | - | - | - | - | - | 3,609 | 3,609 |
| Cumulative translation adjustments | - | - | - | - | - | - | (25,302) | - | (25,302) | - |
| Balance at June 30, 2012 | <u>\$ 12,845,816</u> | <u>\$ 385,375</u> | <u>\$ 255,676</u> | <u>\$ 1,960,557</u> | <u>\$ 5,482,607</u> | <u>\$ 597,733</u> | <u>(\$ 236,551)</u> | <u>\$ -</u> | <u>\$ 15,403</u> | <u>\$ 21,306,616</u> |

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

PRESIDENT SECURITIES CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 587,136 | \$ 200,290 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation (including rental and idle assets) | 44,207 | 42,381 |
| (Income) loss on valuation of open-ended funds and money-market instruments | (11,713) | 10,016 |
| (Income) loss on valuation of trading securities | (111,525) | 138,271 |
| Write-off of bad debts classified as income | (2,152) | (81) |
| Provision for bad debts | 537 | 1,183 |
| Income on long-term investments accounted for under the equity method | (45,491) | (6,638) |
| Cash dividends received from long-term investments at equity method | 3,767 | 94,399 |
| Gain on sales of investments under equity method | (358) | - |
| Discount on bonds payable | - | 26,463 |
| Changes in assets and liabilities: | | |
| Financial assets at fair value through profit or loss - current | (1,338,338) | 1,087,264 |
| Bonds purchased under resale agreements | 179,723 | (379,964) |
| Margin loans receivable | 390,039 | 2,349,229 |
| Refinancing security deposits | (51,264) | (45) |
| Receivables from refinance guaranty | (9,476) | 8,234 |
| Receivables from security lending | 97,785 | (109,951) |
| Security lending deposits | 89,627 | (99,349) |
| Notes receivable | (2,149) | (790) |
| Accounts receivable | (1,082,241) | (230,436) |
| Prepayments | (2,395) | 7,937 |
| Prepaid pension expenses - current | (21,453) | (21,238) |
| Other receivables | 6,896 | (182,421) |
| Deferred tax assets | (3,014) | 4,967 |
| Available- for-sale financial assets - current | 58,817 | (383,473) |
| Bonds sold under repurchase agreements | (677,791) | 2,838,943 |
| Financial liabilities at fair value through profit or loss - current | (75,674) | (188,096) |
| Deposits on short sales | (1,375,008) | (205,184) |
| Short sale proceeds payable | (671,921) | (492,765) |
| Guarantee deposit received on borrowed securities | (754,939) | (697,260) |
| Accounts payable | 756,666 | (1,033,656) |
| Advance receipts | 118 | 2,095 |
| Collections on behalf of third parties | 19,519 | 86,502 |
| Other payables | (29,781) | (326,283) |
| Other financial liabilities - current | 42,700 | (39,664) |
| Securities brokerage debit accounts - net | <u>41,362</u> | <u>(329,707)</u> |
| Net cash (used in) provided by operating activities | <u>(3,947,784)</u> | <u>2,171,173</u> |

(Continued)

PRESIDENT SECURITIES CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Decrease (increase) in restricted assets - current | \$ 1,299,613 | (\$ 11,406) |
| Proceeds from sales of capital by long-term investments at equity method | 12,540 | - |
| Acquisition of fixed assets | (37,957) | (30,832) |
| Changes in clearing and settlement fund | 140,980 | 2,090 |
| Changes in refundable deposits | (618) | 8,398 |
| Proceeds from return of capital by available-for-sale financial assets | <u>14,783</u> | <u>-</u> |
| Net cash provided by (used in) investing activities | <u>1,429,341</u> | <u>(31,750)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase in short-term loans | 250,000 | 1,290,000 |
| Increase (decrease) in commercial papers payable | 2,898,891 | (800,003) |
| Payments for redeemed bonds | - | (2,357,600) |
| (Decrease) increase in deposits-in | (6,735) | 10,838 |
| Treasury stock transactions | <u>-</u> | <u>101,099</u> |
| Net cash provided by (used in) financing activities | <u>3,142,156</u> | <u>(1,755,666)</u> |
| Net increase in cash and cash equivalents | 623,713 | 383,757 |
| Beginning balance of cash and cash equivalents | <u>1,773,140</u> | <u>1,254,485</u> |
| Ending balance of cash and cash equivalents | <u>\$ 2,396,853</u> | <u>\$ 1,638,242</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | <u>\$ 66,417</u> | <u>\$ 61,455</u> |
| Cash paid for income tax | <u>\$ 49,399</u> | <u>\$ 119,501</u> |

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

PRESIDENT SECURITIES CORPORATION
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

- 1) President Securities Corporation (“the Company”) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) on December 17, 1988, and started commercial operations on April 3, 1989. As of June 30, 2012, the Company had 35 operating branches with approximately 1,500 employees.
- 2) The Company is primarily engaged in the underwriting, dealing, brokerage, financing of marketable securities, futures, warrants, derivative financial instruments and wealth management business.
- 3) The Company’s shares are listed on the Taiwan Stock Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Firms”, “Rules Governing the Preparation of Financial Statements by Futures Commission Merchants” and generally accepted accounting principles in the Republic of China. The Company’s significant accounting policies are described below:

1) Translation of foreign currency transactions

- A. Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses are recognized in profit or loss.
- B. Monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss. However, translation exchange gains or losses on intercompany accounts that are, in nature, deemed long-term are accounted for as a reduction of shareholders’ equity.
- C. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

2) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other short-term highly-liquid investments which are readily convertible to a known amount of cash and subject to insignificant risk of changes in value resulting from fluctuations in interest rates.

The statement of cash flows is prepared on the basis of cash and cash equivalents.

3) Financial assets and financial liabilities at fair value through profit or loss

- A. Financial assets and financial liabilities at fair value through profit or loss are recognized and derecognized using trade date accounting and are recognized initially at fair value. The account is classified into current and noncurrent. Non-current assets or liabilities are recorded as “financial assets or financial

liabilities at fair value through profit or loss – noncurrent” under funds and investments or long-term liabilities, respectively.

- B. These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on the closing prices at the balance sheet date. The fair value of open-end mutual funds is based on the net asset value at the balance sheet date. The fair value of delisted (TSE and OTC) stocks and emerging stocks are based on the cost at the balance sheet date when the Company has no ability to exercise significant influence. The fair value of derivative financial instruments is based on the value estimated using the pricing model.
 - C. Profit or loss on derivatives not qualifying for hedge accounting and fall within the definition of option trading is recognized at the fair value on the trading date. For non-option trading, it is recognized at a fair value of zero on the trading date.
 - D. Financial assets and liabilities designated at fair value through profit or loss are those that meet one of the following requirements:
 - a) The product is a mixed product;
 - b) The designation can significantly eliminate the inconsistency in measurement or recognition; or
 - c) The position is mutually managed in accordance with the risk management or investment strategies of the Company and is designated for the purpose of fair value evaluation.
 - E. For call options and resetting options, which are embedded in bonds payable, please refer to Note 2(10).
- 4) Available-for-sale financial assets
- A. Available-for-sale financial assets are recognized and derecognized using trade date accounting. Individual assets are recognized initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
 - B. The financial assets are remeasured and stated at fair value or fundamental value derived from a model evaluation and the gain or loss is recognized in equity. The fair value of listed stocks, OTC stocks, closed-end mutual funds and beneficiary certificates is determined based on the closing prices at the balance sheet date. The fair value of open-end mutual funds is based on the net asset value at the balance sheet date. The fair value of delisted (TSE and OTC) stocks and emerging stocks is based on the cost at the balance sheet date when the Company has no ability to exercise significant influence.
 - C. If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss. Impairment losses recognized previously in profit or loss for an investment in an equity instrument shall not be reversed through profit or loss, and if, subsequently, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed and recognized in profit or loss.
- 5) Notes and accounts receivable, other receivables and margin loans receivable
- A. Notes and accounts receivable and margin loans receivable are claims resulting from sales of goods or services; other receivables are receivables other than the

above. Notes and accounts receivable and margin loans receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less provision for impairment loss.

- B. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A provision for impairment of financial asset is established when there is objective evidence that it is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss being recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment loss shall not make the asset's carrying amount greater than its amortized cost without impairment loss being recognized. The recoveries of amounts are recognized in profit or loss.
- 6) Bonds sold under repurchase agreements and bonds purchased under resale agreements
Bonds sold with repurchase or purchased with resale agreements are stated at cost. The variance between the contracted price and the cost is recognized in interest revenue or interest expense.
- 7) Investments accounted for under the equity method
A. Long-term equity investments in which the Company holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is no longer amortized, effective January 1, 2006. Retrospective adjustment of the amount of goodwill amortized in previous year(s) is not required. The excess of acquired net asset value of investee over the initial investment cost is allocated proportionately and applied as a reduction to the book values of identifiable non-current assets, and any remaining amount of such excess after this allocation is credited to extraordinary gains. However, negative goodwill that occurred prior to December 31, 2005 is continuously amortized. All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. Effective January 1, 2008, the Company prepares consolidated financial statements on a quarterly basis.
B. Exchange differences arising from the translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "Cumulative translation adjustments" under shareholders' equity.
- 8) Fixed, rental and idle assets
A. Fixed and rental assets are stated at cost. Interests incurred on the loans used to bring the asset for their intended uses are capitalized. Depreciation is provided using the weighted-average method based on the estimated economic useful lives of the assets less the residual value, except for leasehold improvements which are depreciated based on useful lives or the term of the contracts whichever is shorter. The estimated useful lives of major fixed assets range from 3 to 5 years, except for buildings which is 50 years.
B. Major renewals and improvements are capitalized and depreciated accordingly. Maintenance and repairs are expensed when incurred.
C. When an asset is sold or retired, the cost and accumulated depreciation are removed

from the respective accounts and the resulting gain or loss is included in current operations.

D. Fixed assets which are not used for operations are recorded as idle assets or leased assets based on the lower of net realizable value or book value, and any loss is recorded as non-operating expense.

9) Impairment of non-financial assets

The Company recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

10) Bonds payable

For the bonds payable with call option, put option, conversion option and conversion price reset issued after January 1, 2006, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. These bonds are accounted for as follows:

A. The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date using the interest method and is recorded as “interest expense”.

B. The value of any derivative features (such as a call option and resetting option) embedded in the compound financial instrument is recognized as “financial assets or financial liabilities at fair value through profit or loss”. These derivative features are subsequently remeasured and stated at fair value on each balance sheet date, and the gain or loss is recognized as “gain/loss on valuation of financial assets or financial liabilities”. At the maturity of redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the derivative is recognized as “paid-in capital”; however, if the fair value of common stock is lower than the redemption price, the fair value of the derivative is recognized as “gain or loss”. Upon reset of conversion price, the reduction of fair value due to reset is reclassified to “shareholders’ equity”.

C. A conversion option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized in “capital reserve from stock warrants”, net of income tax effects. When a bondholder exercises his/her conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued, and the resulting difference shall be recognized as “gain or loss” in the current period. The cost of the common stock issued due to the conversion shall be based on the adjusted book value of the abovementioned liability component plus the book value of the stock warrants.

11) Pension plan

The Company has a non-contributory and funded defined benefit pension plan covering all regular employees. The Company recognizes the pension cost based on an actuarial valuation report. The pension cost includes service cost, interest cost, expected return on fund assets, amortization of unrecognized net transition obligation and unrecognized pension loss. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

12) Income tax

- A. Provision for income tax includes deferred income tax resulting from temporary differences and loss carryforward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior years' income tax liabilities is included in current year's income tax.
- B. The additional 10% income tax on undistributed earnings of the Company is recognized as tax expense in the year the shareholders approve a resolution to retain the earnings.
- C. When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be recognized as an adjustment to income tax expense (benefit) for income from continuing operations in the current period.

13) Treasury stock

- A. When the Company acquires its outstanding shares as treasury stock, the acquisition cost should be debited to the treasury stock account (classified as a contra account under shareholders' equity) if the shares are purchased.
- B. Treasury stocks transferred to employees on or after January 1, 2008 are accounted for in accordance with R.O.C. SFAS No. 39, "Accounting for Share-based Payment".
- C. When a company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus-premium on stock account and capital stock account should be debited proportionately according to the share ratio. An excess of the carrying value of treasury stock over the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. An excess of the sum of the par value and premium on stock of treasury stock over its carrying value should be credited to capital surplus from the same class of treasury stock transactions.
- D. The cost of treasury stock is accounted for on a weighted-average basis.

14) Share-based payment-employee compensation plan

For the grant date of the share-based payment agreements set on or after January 1, 2008, the Company shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during that period.

15) Employees' bonus and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonus and Directors' and Supervisors' Remuneration", the costs of employees' bonus and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts resolved by the shareholders at their annual shareholders' meeting subsequently, the differences shall be recognized as gain or loss in the year of distribution. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008,

“Criteria for Listed Companies in Calculating the Number of Shares of Employees’ Stock Bonus”, the Company calculates the number of shares of employees’ stock bonus based on the closing price of the Company’s common stock at the previous day of the shareholders’ meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

16) Earnings per share

- A. Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the year after taking into consideration the retroactive effect of stock dividends and capital reserve capitalized.
- B. The Company adopted R.O.C. SFAS No. 24 “Earnings Per Share”, which requires the calculation of earnings per share by disclosing basic and diluted earnings per share if there are potential common stocks.

17) Revenues and expenses

Revenues and expenses are recognized as follows:

- A. Gains (losses) on sale of securities, securities brokerage fees, and commissions on brokerage and trading are recognized on the transaction date.
- B. Interest revenues on margin loans are recognized and accrued over the loan period. Interest expense on short selling is recognized and accrued over the short selling period.
- C. Underwriting fees and related service charges: application fees are recognized upon collection; underwriting fees and service charges are recognized when the contract is completed.
- D. Stock custodian income is recognized monthly based on the terms of the contract.
- E. Commission income – Futures is recognized on the transaction date. The Company assists in futures transaction and fees collection.
- F. Gains (losses) on futures contracts: The margin of futures transaction is recognized as cost. Costs and expenses are recognized as incurred.

18) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimations and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

19) Classification of current and non-current assets and liabilities

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
 - b) Assets held mainly for trading purposes;
 - c) Assets that are expected to be realized within twelve months from the balance sheet date; and
 - d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- b) Liabilities arising mainly from trading activities;
- c) Liabilities that are to be paid off within twelve months from the balance sheet date; and
- d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

20) Operating segments

A. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

B. In accordance with R.O.C. SFAS No. 41, "Operating Segments", segment information is disclosed in the consolidated financial statements rather than in the separate financial statements of the Company.

3. CHANGES IN ACCOUNTING PRINCIPLES

1) Notes and accounts receivable, other receivables and margin loans receivable

Effective January 1, 2011, the Company adopted the amendments to R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". A provision for impairment (bad debts) of notes and accounts receivable, other receivables and margin loans receivable is made when there is objective evidence of impairment. This change in accounting principle had no significant effect on net income and earnings per share for the six-month period ended June 30, 2011.

2) Operating segments

Effective January 1, 2011, the Company adopted the newly published R.O.C. SFAS No. 41, "Operating Segments" and therefore, restated the segment reporting of 2010 upon the first adoption of R.O.C. SFAS No. 41. This change in accounting principle had no significant effect on net income and earnings per share for the six-month period ended June 30, 2011.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

| | <u>June 30,</u> | |
|--|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| Petty cash | \$ 1,774 | \$ 1,773 |
| Checking deposits | 213,510 | 162,058 |
| Current deposits : | | |
| Deposits denominated in NTD | 302,219 | 326,375 |
| Deposits denominated in foreign currencies | 695,073 | 126,679 |
| Time deposits | | |
| Deposits denominated in NTD | 3,558,500 | 3,353,500 |
| Deposits denominated in foreign currencies | <u>149,400</u> | <u>718,125</u> |
| Subtotal | 4,920,476 | 4,688,510 |
| Less : Restricted assets-current | (1,821,623) | (2,270,268) |
| Restricted assets-non-current | <u>(702,000)</u> | <u>(780,000)</u> |
| Total | <u>\$ 2,396,853</u> | <u>\$ 1,638,242</u> |

2) Financial assets at fair value through profit or loss

| | <u>June 30,</u> | |
|--|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| Current items: | | |
| Financial assets held for trading: | | |
| <u>Open-end mutual funds beneficiary certificates and money market instruments</u> | | |
| Open-end mutual funds beneficiary certificates | \$ 480,000 | \$ 710,120 |
| Adjustment of open-end mutual funds beneficiary certificates | (5,394) | (3,881) |
| Total | <u>474,606</u> | <u>706,239</u> |
| <u>Trading securities - dealer</u> | | |
| Listed (TSE and OTC) stocks | 1,415,245 | 2,624,426 |
| Listed (TSE and OTC) warrants | 565 | - |
| Government bonds | 6,746,793 | 4,963,714 |
| Corporate bonds | - | 99,275 |
| Convertible corporate bonds | 2,182,554 | 1,685,786 |
| Emerging stocks | 197,768 | 260,510 |
| Exchange-traded funds | 3,446 | - |
| Overseas securities | 1,927,113 | 290,683 |
| Subtotal | <u>12,473,484</u> | <u>9,924,394</u> |
| Adjustment of trading securities - dealer | (10,422) | 102,366 |
| Total | <u>12,463,062</u> | <u>10,026,760</u> |
| <u>Trading securities - underwriter</u> | | |
| Listed (TSE and OTC) stocks | 233,909 | 1,955 |
| Convertible corporate bonds | 665,500 | 452,200 |
| Subtotal | <u>899,409</u> | <u>454,155</u> |
| Adjustment of trading securities - underwriter | 20,008 | 35,288 |
| Total | <u>919,417</u> | <u>489,443</u> |
| <u>Trading securities - hedging</u> | | |
| Listed (TSE and OTC) stocks | 194,912 | 803,847 |
| Convertible corporate bonds | 305,601 | 157,890 |
| Warrants | 32,476 | 68,587 |
| Exchange-traded funds | 159 | - |
| Subtotal | <u>533,148</u> | <u>1,030,324</u> |
| Adjustment of trading securities - hedging | 29,317 | (20,082) |
| Total | <u>562,465</u> | <u>1,010,242</u> |
| <u>Buy option - futures</u> | <u>7,609</u> | <u>32,526</u> |
| <u>Futures guarantee deposits receivable</u> | <u>1,378,530</u> | <u>1,320,869</u> |
| <u>Derivative financial instrument assets - OTC</u> | <u>94,158</u> | <u>1,780</u> |
| Total | <u>\$ 15,899,847</u> | <u>\$ 13,587,859</u> |

| | June 30, | |
|--|------------------|-------------|
| | 2012 | 2011 |
| Non-current items: | | |
| Trading securities - dealer - government bonds | \$ 52,058 | \$ - |
| Adjustment of trading securities | (795) | - |
| Total | <u>\$ 51,263</u> | <u>\$ -</u> |

A. For derivative financial instruments - OTC, please refer to Note 10.

B. Changes in financial assets at fair value through profit or loss are as follows:

| | For the six-month period June 30, 2012 | |
|--|---|----------------------|
| | Gain (loss) on disposal | Gain on valuation |
| Open-end mutual funds beneficiary certificates | (\$ 14,185) | \$ 11,713 |
| Trading securities - dealer | 139,867 | 33,879 |
| Trading securities - underwriter | 27,826 | 31,869 |
| Trading securities - hedging | (21,107) | 45,777 |
| Total | <u>\$ 132,401</u> | <u>\$ 123,238</u> |

| | For the six-month period June 30, 2011 | |
|--|---|----------------------|
| | Gain (loss) on disposal | Loss on valuation |
| Open-end mutual funds beneficiary certificates | \$ 740 | (\$ 10,016) |
| Trading securities - dealer | 58,988 | (135) |
| Trading securities - underwriter | 9,398 | (23,936) |
| Trading securities - hedging | (95,230) | (114,200) |
| Total | <u>(\$ 26,104)</u> | <u>(\$ 148,287)</u> |

C. For details of the listed stocks reclassified to “available-for-sale financial assets-current”, please refer to Note 4(3).

(Blank)

3) Available-for-sale financial assets

| <u>Investees</u> | <u>June 30, 2012</u> | | <u>June 30, 2011</u> | |
|--|----------------------|--------------------------------|----------------------|--------------------------------|
| | <u>Amount</u> | <u>Percentage of ownership</u> | <u>Amount</u> | <u>Percentage of ownership</u> |
| <u>Current</u> | | | | |
| <u>Trading securities - dealer</u> | | | | |
| Listed stocks | \$ 451,863 | - | \$ 1,490,342 | - |
| Adjustment of trading securities - dealer | 7,926 | | 300,239 | |
| Subtotal | 459,789 | | 1,790,581 | |
| <u>Trading securities - underwriter</u> | | | | |
| Listed stocks | 224,259 | - | 254,438 | - |
| Adjustment of trading securities - underwriter | 7,477 | | 14,923 | |
| Subtotal | 231,736 | | 269,361 | |
| Total | \$ 691,525 | | \$ 2,059,942 | |
| <u>Non-Current</u> | | | | |
| <u>Unlisted stocks</u> | | | | |
| Taiwan Depository & Clearing Corp. | \$ 2,450 | 0.24% | \$ 2,450 | 0.24% |
| Taiwan Futures Exchange Hua Liu Venture Capital Corporation | 17,391 | 8.70% | 43,478 | 8.70% |
| Cathay Venture Capital I Taiwan Integrated Shareholder Service Company | 13,608 | 5.00% | 16,800 | 5.00% |
| | 15,395 | 5.27% | 15,395 | 5.27% |
| Total | \$ 52,844 | | \$ 82,123 | |

A. Gain on disposal of available-for-sale financial assets is as follows:

| <u>Items</u> | <u>For the six-month periods ended June 30,</u> | |
|----------------------------------|---|-------------|
| | <u>2012</u> | <u>2011</u> |
| Trading securities - dealer | \$ 33,728 | \$ 8,122 |
| Trading securities - underwriter | 1,801 | 6,488 |
| Total | \$ 35,529 | \$ 14,610 |

B. Due to the global financial crisis in 2008, the Company reclassified listed stocks totaling \$865,241, which were originally recorded as “financial assets at fair value through profit or loss” to “available-for-sale financial assets” during the third quarter of 2008 in accordance with the amended paragraph 104 of R.O.C. SFAS No. 34, “Financial Instruments: Recognition and Measurement”. The relevant information is set forth below:

- a) As of June 30, 2012 and 2011, the carrying amount (fair value) of the reclassified listed stocks stated above is as follows:

| <u>Items</u> | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|---------------|----------------------|----------------------|
| Listed stocks | \$ 484,055 | \$ 1,044,553 |

- b) Changes in the fair values of the reclassified listed stocks stated above for the

six-month periods ended June 30, 2012 and 2011 were as follows:

| | For the six-month periods | | | |
|---------------|---------------------------|---|------------------------|---|
| | June 30, 2012 | | June 30, 2011 | |
| | Changes in fair values | | Changes in fair values | |
| | Recognized in gain | Recognized in adjustments to shareholders' equity | Recognized in gain | Recognized in adjustments to shareholders' equity |
| Listed stocks | \$ 1,801 | \$ 4,097 | \$ 9,954 | \$ 66,894 |

- c) For those listed stocks stated above, had they not been reclassified to "available-for-sale financial assets-current" during the third quarter of 2008, the loss from change in fair values of those listed stocks would have been recognized as "gain or loss" as follows:

| Items | Amount |
|---|------------------|
| For the year ended December 31, 2011 and before | \$ 12,492 |
| For the six-month period ended June 30, 2012 | 4,097 |
| | <u>\$ 16,589</u> |

4) Bonds purchased under resale agreements

| Items | June 30, | |
|------------------|-----------|------------|
| | 2012 | 2011 |
| Government bonds | \$ 50,321 | \$ 878,052 |

The above bonds purchased under resale agreements as of June 30, 2012 and 2011 were due within one year and were contracted to be resold at the agreed-upon price plus interest charge on the specific date after transaction. The total resale amounts were \$50,322 and \$878,136, respectively, with annual interest rates of 0.75% and 0.66%~0.695%, respectively.

5) Margin loans receivable

Margin loans receivable were secured by the securities purchased by customers under margin loans. For the six-month periods ended June 30, 2012 and 2011, the annual interest rates were both 6.525%.

(Blank)

6) Investments accounted for under the equity method

| | <u>June 30, 2012</u> | | <u>June 30, 2011</u> | |
|--|----------------------|--------------------------------|----------------------|--------------------------------|
| | <u>Amount</u> | <u>Percentage of ownership</u> | <u>Amount</u> | <u>Percentage of ownership</u> |
| President Futures Corp. | \$ 1,111,106 | 96.69% | \$ 1,092,949 | 97.69% |
| President Securities (HK) Ltd. | 61,064 | 5.19% | 65,865 | 5.19% |
| President Capital Management Corp. | 146,863 | 100.00% | 146,757 | 100.00% |
| President Securities (BVI) Ltd. | 1,792,108 | 100.00% | 1,847,874 | 100.00% |
| Uni-President Assets Management Corp. | 379,202 | 38.66% | 361,502 | 38.66% |
| President Personal Insurance Agency Co. Ltd. | 7,431 | 100.00% | 5,535 | 100.00% |
| President Insurance Agency Corp. | 11,081 | 100.00% | 8,070 | 100.00% |
| | <u>\$ 3,508,855</u> | | <u>\$ 3,528,552</u> | |

A. The Company and President Securities (BVI) Limited jointly own 100% of the outstanding shares of President Securities (HK) Limited which is accounted for under the equity method.

B. Investment income accounted for under the equity method for the six-month periods ended June 30, 2012 and 2011 were \$45,491 and \$6,638, respectively.

C. The Company has included investee companies in which the Company holds more than 50% of the investee company's voting shares or has control over the investee's operational decisions, into the consolidated financial statements.

7) Short-term loans

| | <u>June 30,</u> | |
|-----------------|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| Secured loans | \$ 2,100,000 | \$ 5,300,000 |
| Unsecured loans | 800,000 | 2,850,000 |
| Total | <u>\$ 2,900,000</u> | <u>\$ 8,150,000</u> |
| Interest rates | <u>0.95%~1.12%</u> | <u>0.839%~0.97%</u> |

8) Commercial papers payable

| | <u>June 30,</u> | |
|---|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| Face value | \$ 4,400,000 | \$ 5,450,000 |
| Less: discount on commercial papers payable | (1,328) | (1,618) |
| Total | <u>\$ 4,398,672</u> | <u>\$ 5,448,382</u> |
| Interest rates | <u>0.77%~0.897%</u> | <u>0.62%~0.84%</u> |

The commercial papers payable were secured by the bills-financing institutions and the banks.

9) Bonds sold under repurchase agreements

| | <u>June 30,</u> | |
|------------------|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| Government bonds | \$ 7,374,487 | \$ 6,198,475 |
| Corporate bonds | - | 100,000 |
| Foreign bonds | 563,995 | - |
| Total | <u>\$ 7,938,482</u> | <u>\$ 6,298,475</u> |

The above bonds sold under repurchase agreements as of June 30, 2012 and 2011 were

due within one year and were contracted to be repurchased at the agreed-upon price plus interest charge on the specific date after the transaction. The total repurchase amount was \$7,944,577 and \$6,299,165, respectively, and the annual interest rates in every currency were shown as follows:

| Currency | June 30, | |
|----------|-------------|-------------|
| | 2012 | 2011 |
| NTD | 0.65%~0.80% | 0.50%~0.80% |
| AUD | 4.61% | - |
| EUR | 0.50%~0.54% | - |
| USD | 0.72%~1.11% | - |

10) Financial liabilities at fair value through profit or loss

| | June 30, | |
|---|-------------|-------------|
| | 2012 | 2011 |
| <u>Financial liabilities held for trading:</u> | | |
| Payables for securities borrowing-hedging | \$ 90,457 | \$ 117,812 |
| Adjustment of payables for securities borrowing - hedging | 1,640 | (1,405) |
| Subtotal | 92,097 | 116,407 |
| Warrants | 4,630,431 | 5,434,332 |
| (Gain) loss on price fluctuation | (1,795,259) | (1,432,735) |
| Market value (A) | 2,835,172 | 4,001,597 |
| Repurchase of warrants | (4,397,884) | 4,734,866 |
| Loss (gain) on price fluctuation | 1,648,861 | (1,105,585) |
| Market value (B) | (2,749,023) | 3,629,281 |
| Warrants - net (A+B) | 86,149 | 372,316 |
| Liabilities for sale of options - futures | 6,956 | 111,301 |
| Derivative financial instrument liabilities - OTC | 166,319 | 1,943 |
| Total | \$ 351,521 | \$ 601,967 |

A. For details of derivative financial instrument liabilities - OTC, please refer to Note 10.

B. Among the warrants issued by the Company, except that contract-based warrants are European-style warrants, all other warrants are American-style warrants. Warrants are stated as liabilities for issuance of warrants at issuance price prior to expiration. Upon repurchase of warrants after issuance, the repurchased amounts are recognized as warrants repurchase and charged as a deduction to liabilities for issuance of warrants. The warrants have six to nine months exercise period from the date of issuance. The issuer has the option to settle either by cash or stock delivery.

(Blank)

11) Other payables

| | June 30, | |
|--|---------------------|---------------------|
| | 2012 | 2011 |
| Cash dividend payable | \$ - | \$ 569,579 |
| Income tax payable | 49,939 | 209,108 |
| Accrued payroll and bonus | 429,330 | 411,306 |
| Directors' and supervisors' remuneration payable | 19,642 | 45,154 |
| Employees' bonuses payable | 13,095 | 30,103 |
| Interest payable | 4,238 | 22,636 |
| Other payables-FX Swap | 748,437 | - |
| Others | 191,102 | 244,697 |
| Total | <u>\$ 1,455,783</u> | <u>\$ 1,532,583</u> |

12) Other financial liabilities - current

| | June 30, | |
|--|-------------------|-------------------|
| | 2012 | 2011 |
| Equity-linked notes (ELN) - Options | \$ 26,200 | \$ 35,700 |
| Principal guarantee notes (PGN) - fixed income | 99,998 | 199,969 |
| Total | <u>\$ 126,198</u> | <u>\$ 235,669</u> |

13) Bonds payable

- A. On May 28, 2008, the Company issued zero coupons, three-year unsecured convertible bonds with the principal amount of \$3,000,000. The bonds were listed on the Taiwan Over-The-Counter Securities Exchange.
- B. The conversion price would be adjusted based on the terms of the convertible bonds. As of the due date, none of the bonds were converted to common stocks.
- C. Under the terms of the convertible bonds, all bonds (redeemed, matured and converted) were retired and not to be re-issued. As of June 30, 2011, the total convertible bonds were due and redeemed.
- D. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds were the same as the issued and outstanding common stock.
- E. The fair value of convertible option of \$166,500 was separated from bonds payable, and was recognized in "capital reserve from stock warrants" in accordance with R.O.C. SFAS No. 36 "Financial Instruments: Disclosure and Presentation". The fair value of call options and reset options was separated from bonds payable, and was recognized in "liabilities on derivative instruments - Taiwan Over-The-Counter Securities Exchange" under the account of "financial assets or financial liabilities at fair value through profit or loss" in accordance with R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". The effective annual interest rate of the bonds after separation was 2.8%.

14) Pension plan

- A. The Company has a defined benefit plan under the Labor Standards Law which provides benefits based on an employee's length of service and average salary or wage of the last 6 months prior to retirement. Two units are accrued for each year of service for the first 15 years and one unit for each additional year of service thereafter, with a maximum of 45 units. The Company contributes monthly an

amount equal to 7.2% of employees' monthly base salaries and wages to an independent fund with the Bank of Taiwan, the trustee. For the six-month periods ended June 30, 2012 and 2011, the Company recognized net periodic pension cost of \$20,399 and \$27,929, respectively. The fund balances were \$422,560 and \$387,390 as of June 30, 2012 and 2011, respectively. The total of additional retirement funds deposited were \$129,454 and \$101,941 as of June 30, 2012 and 2011, respectively.

- B. Effective July 1, 2005, the Company established the defined contribution plan for employees of R.O.C. nationality. The employees have the option to participate in the New Plan. Under the New Plan, the Company contributes monthly an amount equivalent to 6% of employees' salaries to the employees' personal pension accounts with the "Bureau of Labor Insurance". Benefits accrued under the New Plan are portable upon termination of employment. The total pension expenses amounted to \$25,788 and \$28,912 under the New Plan for the six-month periods ended June 30, 2012 and 2011, respectively.

15) Reserve for default

- A. In accordance with the "Rules Governing the Administration of Securities Firms", the Company provides a monthly default reserve at 0.0028% of the settlement value up to a maximum reserve balance of \$200,000.
- B. This reserve shall be used only to offset against actual loss resulting from customers' default on securities transactions or other losses approved by the Securities and Futures Bureau (SFB).
- C. In accordance with the ordering letters issued by the Financial Supervisory Commission on January 11 and 13, 2011, effective January, 2011, securities firms are no longer required to provide reserve for trading loss and reserve for default, in line with the amended "Rules Governing the Administration of Securities Firms". The Company had reclassified the reserve for trading loss and reserve for default as of December 31, 2010 into "special reserve" in January, 2011.

16) Reserve for trading loss

- A. In accordance with the "Rules Governing the Administration of Securities Firms" and the "Rules Governing Futures Commission Merchants", the Company provides a monthly reserve for trading loss on realized gain of the Futures Department at 10% of the net gain from trading of securities. This reserve shall only be used to offset actual loss on securities trading.
- B. For details regarding the treatment effective January, 2011, please refer to Note 4 (15) C.

17) Common stock and stock dividend distributable

- A. As of June 30, 2012 and 2011, the Company's authorized capital was \$15,000,000. The Company's issued common stocks were 1,284,582 thousand shares and 1,231,933 thousand shares, respectively, and the outstanding common stocks were 1,284,582 thousand shares and 1,211,869 thousand shares as of June 30, 2012 and 2011, respectively, with a par value of \$10 (dollars) per share. For treasury stock transactions, please refer to Note 4 (22).
- B. In accordance with the resolutions adopted at the shareholders' meeting on June 22, 2012 and June 24, 2011, the Company increased its capital by capitalizing the unappropriated earnings amounting to \$231,255 and \$727,122, equivalent to 23,123 thousand shares and 72,712 thousand shares, respectively, and also adopted to capitalize the capital reserve amounting to \$154,150, equivalent to 15,415

thousand shares. All the capitalizations were approved by the Securities and Futures Bureau in 2012 and 2011. The effective dates were set on August 13, 2012 and August 15, 2011, respectively.

18) Capital reserve

A. Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. If for issuing cash to shareholders, it should be in accordance with Jin-Jheng-Cyuan Letter No. 1010029627 dated July 20, 2012. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

B. For the capitalization of capital reserve, please refer to Note 4(17).

19) Legal reserve

Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital, and if for issuing cash to shareholders, it should be in accordance with Jin-Jheng-Cyuan Letter No. 1010029627 dated July 20, 2012.

20) Special reserve

A. According to the "Rules Governing the Administration of Securities Firms", 20% of the current year's earnings, after paying all taxes and offsetting prior years' operating losses, if any, shall be set aside as special reserve until the cumulative balance equals the total amount of paid-in capital. The special reserve shall be used exclusively to cover accumulated deficit or to increase capital and shall not be used for any other purpose. Such capitalization shall not be permitted unless the Company had already accumulated a special reserve of at least 50% of its paid-in capital stock and only half of such special reserve may be capitalized.

B. In accordance with the Administration of Securities Firms Letter No. 100116 dated January 3, 2000, for dividend distribution purposes, listed and over-the-counter companies shall exclude the balances of contra accounts from the unappropriated earnings balance in the shareholders' equity account. Therefore, the cumulative unappropriated earnings shall be recognized from the shareholders' equity account into the special reserve. If the portion of the contra accounts of shareholders' equity is revised, then the same portion of unappropriated earnings can be distributed to shareholders as well.

21) Unappropriated earnings

A. In accordance with the Company's Articles of Incorporation, the current year's earnings after paying all taxes and offsetting prior years' operating losses, if any, shall be set aside as legal reserve and special reserve. In addition, an amount shall be appropriated from the remaining net income following a resolution approved by the Company's shareholders during their meeting as follows: 3% as special bonus to

directors and supervisors; 2% as bonus to employees and 95% as dividends to shareholders, it should not be distributed if all the distributable earnings were not over 5% of the capital stock.

- B. In addition, the total amount of dividends declared every year shall be at least 70% of distributable earnings, of which stock dividends shall be at least 50% and cash dividends shall be lower than 50%.
- C. The Company's dividend policy is adopted taking into consideration the Company's operating results and future capital utilization plans.
- D. In accordance with the resolution adopted by the shareholders on June 22, 2012 and June 24, 2011, the Company decided to distribute earnings for the year ended December 31, 2011 and 2010. Appropriation of 2011 and 2010 earnings as resolved by the shareholders at the meeting on June 22, 2012 and June 24, 2011 respectively are stated as follows:

| | <u>2011</u> | |
|-----------------|---------------------|---|
| | <u>Amount</u> | <u>Dividends per share (in dollars)</u> |
| Legal reserve | \$ 56,689 | |
| Special reserve | 283,853 | |
| Stock dividends | <u>231,225</u> | \$0.18 |
| Total | <u>\$ 571,767</u> | |
| | <u>2010</u> | |
| | <u>Amount</u> | <u>Dividends per share (in dollars)</u> |
| Legal reserve | \$ 180,334 | |
| Special reserve | 320,366 | |
| Stock dividends | 727,122 | \$0.60 |
| Cash dividends | <u>569,579</u> | 0.47 |
| Total | <u>\$ 1,797,401</u> | |

- E. Information on the appropriation of the Company's earnings as resolved by the Board of Directors and approved by the shareholders would be posted in the "Market Observation Post System" on the Taiwan Stock Exchange official website. As resolved by the shareholders at the shareholders' meeting, for the 2011 earnings distribution, the employees' bonus of \$4,868 and the directors' and supervisors' remuneration of \$7,302 recognized in the 2011 financial statements, resulted in a \$2 dollar difference compared to the originally planned amount. The difference was adjusted to the statement of income for the six-month period June 30, 2012.
- F. Employees' bonus was accrued at \$8,227 and \$2,804 and directors' and supervisors' remuneration was accrued at \$12,340 and \$4,206 for the six-month periods ended June 30, 2012 and 2011, respectively, which were estimated based on certain percentages (prescribed by the Company's Articles of Incorporation) of net income in the current period after taking into account the legal reserve and other factors, and were accrued as operating expenses for the six-month periods ended June 30, 2012 and 2011, respectively.

22) Treasury stock

A. Details of treasury stock transactions for the six-month period June 30, 2011 was as follows: (Unit: thousand shares)

| For the six-month period ended June 30, 2011 | | | | | |
|--|------------------|------------------|-------------------|-----------------|---------------|
| <u>Reason for reacquisition</u> | <u>Beginning</u> | <u>Additions</u> | <u>Retirement</u> | <u>Transfer</u> | <u>Ending</u> |
| To be reissued to employees | 30,025 | - | - | (9,961) | 20,064 |

As of December 31, 2011, there was no treasury stock.

According to the Securities and Exchange Act, the total number of treasury stocks shall not exceed 10% of total shares outstanding and the total amount shall not exceed the sum of the balance of retained earnings, paid-in capital in excess of par and realized capital reserve.

B. Under the Securities and Exchange Act, treasury stocks shall not be pledged and shall bear no shareholder's right before reissuance.

C. Under the Securities and Exchange Law, treasury stocks acquired to enhance shareholder value shall be retired within six months from the date of acquisition. In addition, treasury stocks acquired for employee ownership shall be transferred within three years from the date of acquisition. Otherwise, these shares shall be retired.

23) Income tax

A. Income tax expense and payable were reconciled as follows:

| | June 30, | |
|---|------------------|------------------|
| | 2012 | 2011 |
| Income tax payable (recorded as other payables) | \$ 49,939 | \$ 209,108 |
| Prepaid income tax | 9,032 | 11,967 |
| Net effect of deferred tax assets | (3,014) | 4,967 |
| Over provision of prior year's income tax | 9,971 | 3,032 |
| Tax effect of amendments to the tax laws | (15,905) | (155,570) |
| Retention tax (10%) on unappropriated earnings | - | (595) |
| Payment for overseas income tax expense | 91 | - |
| Income tax expense - current | 50,114 | 72,909 |
| Retention tax (10%) on unappropriated earnings | - | 595 |
| Income tax expense | <u>\$ 50,114</u> | <u>\$ 73,504</u> |

B. Details of temporary differences, loss carryforwards and investment tax credits resulting in deferred income tax assets and liabilities are as follows:

| | June 30, | | | |
|---|---------------|-------------------|---------------|-------------------|
| | 2012 | | 2011 | |
| <u>Temporary differences</u> | <u>Amount</u> | <u>Tax effect</u> | <u>Amount</u> | <u>Tax effect</u> |
| Current: | | | | |
| Temporary differences: | | | | |
| - Bad debts | \$ 78,153 | \$ 13,286 | \$ 78,153 | \$ 13,286 |
| - Loss (gain) on valuation of financial instruments | 38,021 | 6,463 (| 15,135) (| 2,573) |
| - Others | 2,935 | 499 | 28,900 | 4,913 |
| | | <u>\$ 20,248</u> | | <u>\$ 15,626</u> |

| Temporary differences | June 30, | | | |
|------------------------|----------|------------|----------|------------|
| | 2012 | | 2011 | |
| | Amount | Tax effect | Amount | Tax effect |
| Non-current: | | | | |
| Temporary differences: | | | | |
| - Depreciation | \$ 6,401 | \$ 1,088 | \$ 7,882 | \$ 1,340 |

C. Imputation tax system

The balance of the imputation tax credit account and the creditable tax rate are shown below:

| | June 30, | |
|--------------------------------------|---------------------------|------------------------|
| | 2012 | 2011 |
| Balance of imputation credit account | \$ 747,691 | \$ 810,423 |
| Rate of imputation credit account | 2011(Estimated) 21.07% | 2010(Actual) 21.22% |

D. Unappropriated earnings

| | June 30, | |
|------------------|------------|------------|
| | 2012 | 2011 |
| 1998 and onwards | \$ 597,733 | \$ 215,759 |

E. As of June 30, 2012, the Company's income tax returns through 2009, except for 2008, has been assessed by the Tax Authority.

24) Basic earnings per share

A. The Company's capital structure is a simple capital structure. The basic earnings per share for the six-month periods ended June 30, 2012 and 2011 were calculated based on the weighted-average outstanding common shares of 1,323,119 thousand shares and 1,321,617 thousand shares, respectively, which had been adjusted retroactively.

B. Since the employee bonus can be distributed with company stocks, the earnings per share can be determined by the assumption of employee bonus distributed with stocks under the method of weighted-average outstanding common shares as follows:

| | For the six-month period ended June 30, 2012 | | | | |
|---|--|-------------------|--|------------------------------------|----------------|
| | Amount | | Weighted-average outstanding common shares (In thousands) | Earnings per share (In dollars) | |
| | Before tax | After tax | | Before tax | After tax |
| <u>Basic earnings per share:</u> | | | | | |
| Net income attributable to common shareholders | \$ 637,250 | \$ 587,136 | 1,323,119 | \$ 0.48 | \$ 0.44 |
| <u>Dilutive effect of common stock equivalents:</u> | | | | | |
| -Employee bonus | - | - | 552 | | |
| <u>Diluted earnings per share</u> | <u>\$ 637,250</u> | <u>\$ 587,136</u> | <u>\$ 1,323,671</u> | <u>\$ 0.48</u> | <u>\$ 0.44</u> |

| | For the six-month period ended June 30, 2011 | | | | |
|---|--|-------------------|--|------------------------------------|----------------|
| | Amount | | Weighted-average outstanding common shares (In thousands) | Earnings per share (In dollars) | |
| | Before tax | After tax | | Before tax | After tax |
| <u>Basic earnings per share:</u> | | | | | |
| Net income attributable to common shareholders | \$ 273,794 | \$ 200,290 | 1,321,617 | \$ 0.21 | \$ 0.15 |
| <u>Dilutive effect of common stock equivalents:</u> | | | | | |
| -Employee bonus | - | - | 150 | | |
| <u>Diluted earnings per share</u> | <u>\$ 273,794</u> | <u>\$ 200,290</u> | <u>1,321,767</u> | <u>\$ 0.21</u> | <u>\$ 0.15</u> |

25) Securities brokerage accounts - net

| | June 30, | |
|--|---------------------|---------------------|
| | 2012 | 2011 |
| Debits: | | |
| Cash in bank - settlement | \$ 17,585 | \$ 214,477 |
| Accounts receivable - securities purchases | 3,500 | 4,900 |
| Net exchange clearing receivable | 622,180 | 1,039,611 |
| Accounts receivable - settlement | 2,658,347 | 5,198,846 |
| | <u>3,301,612</u> | <u>6,457,834</u> |
| Credits: | | |
| Accounts payable - sales consignment of securities | (3,892) | (7,577) |
| Accounts payable - settlement | (2,804,502) | (5,559,376) |
| Net exchange clearing payable | (449,919) | (561,363) |
| | <u>(3,258,313)</u> | <u>(6,128,316)</u> |
| Securities brokerage accounts - net | <u>\$ 43,299</u> | <u>\$ 329,518</u> |

26) Personal expenses, depreciation and amortization

| Nature/ Function | For the six-month period ended June 30, 2012 | | | | |
|----------------------------|--|----------|--------------|----------------|-----------|
| | Brokerage | Dealing | Underwriting | Administration | Total |
| Personnel Expenses | | | | | |
| Salaries | \$444,876 | \$27,423 | \$27,514 | \$230,100 | \$729,913 |
| Labor and health insurance | 34,868 | 2,408 | 2,783 | 5,848 | 45,907 |
| Pension | 37,459 | 2,090 | 2,188 | 4,450 | 46,187 |
| Others | 25,430 | 1,004 | 1,468 | 8,746 | 36,648 |
| Depreciation (Note) | 27,521 | 2,871 | 1,199 | 11,565 | 43,156 |

| Nature/ Function | For the six-month period ended June 30, 2011 | | | | |
|----------------------------|--|----------|--------------|----------------|-----------|
| | Brokerage | Dealing | Underwriting | Administration | Total |
| Personnel Expenses | | | | | |
| Salaries | \$530,380 | \$24,343 | \$23,785 | \$206,056 | \$784,564 |
| Labor and health insurance | 38,799 | 2,136 | 2,312 | 5,344 | 48,591 |
| Pension | 47,964 | 2,073 | 2,082 | 4,722 | 56,841 |
| Others | 31,808 | 1,201 | 1,384 | 10,630 | 45,023 |
| Depreciation (Note) | 26,314 | 2,844 | 1,307 | 10,537 | 41,002 |

Note: Depreciation on rental and idle assets for the six-month periods ended June 30, 2012 and 2011 were \$1,051 and \$1,379, respectively, which were recorded as non-operating expense.

27) Gains (loss) on trading of securities

| | <u>For the six-month periods ended June 30,</u> | |
|--------------------|---|--------------------|
| | <u>2012</u> | <u>2011</u> |
| Dealer: | | |
| - TAIEX | \$ 112,244 | \$ 109,583 |
| - OTC | 53,020 | (43,262) |
| - Overseas trading | 8,331 | 789 |
| Subtotal | <u>173,595</u> | <u>67,110</u> |
| Underwriters: | | |
| - TAIEX | 5,487 | 9,931 |
| - OTC | 24,140 | 5,955 |
| Subtotal | <u>29,627</u> | <u>15,886</u> |
| Hedging: | | |
| - TAIEX | (21,085) | (66,564) |
| - OTC | (22) | (28,666) |
| Subtotal | <u>(21,107)</u> | <u>(95,230)</u> |
| Total | <u>\$ 182,115</u> | <u>(\$ 12,234)</u> |

28) Non-operating income and gains

| | <u>For the six-month periods ended June 30,</u> | |
|--|---|-------------------|
| | <u>2012</u> | <u>2011</u> |
| Interest revenue | | |
| mmmmm | \$ 16,591 | \$ 9,852 |
| Foreign exchange gains | 30,894 | 4,092 |
| Currency swap gains | 11,055 | - |
| Investment gain accounted for under the equity method | 45,491 | 6,638 |
| Rental revenue | 12,928 | 12,412 |
| Open-ended funds & money market instruments valuation gain | 11,713 | - |
| Dividend income | 3,814 | 13,014 |
| Other non-operating revenues | 50,038 | 77,632 |
| Total | <u>\$ 182,524</u> | <u>\$ 123,640</u> |

29) Non-operating expenses and losses

| | <u>For the six-month periods ended June 30,</u> | |
|---------------------------------|---|------------------|
| | <u>2012</u> | <u>2011</u> |
| Interest expense | \$ 27,930 | \$ 75,922 |
| Foreign exchange losses | - | 1,040 |
| Loss on disposal of investments | 14,185 | - |
| Other non-operating expenses | 1,351 | 11,452 |
| Total | <u>\$ 43,466</u> | <u>\$ 88,414</u> |

30) Financial statement presentation

Certain accounts in the financial statements for the six-month period ended June 30, 2011 were reclassified to conform with the financial statement presentation for the six-month period ended June 30, 2012.

5. RELATED PARTY TRANSACTIONS

1) Names and relationships of related parties

| <u>Names of related parties</u> | <u>Relationship with the Company</u> |
|---|--------------------------------------|
| UNI-President Enterprises Corp. | Major shareholder |
| President Capital Management Corp. (PCMC) | Majority-owned subsidiary |
| President Futures Corp. (PFC) | Majority-owned subsidiary |
| Uni-President Assets Management Corp. | Majority-owned subsidiary |
| President Securities (BVI) Ltd. (PSBVI) | Majority-owned subsidiary |
| President Securities (Nominee) Ltd. | Indirectly-owned subsidiary |
| President Wealth Management (HK) Ltd. | Indirectly-owned subsidiary |
| President Securities (HK) Ltd.(PSHK) | Majority-owned subsidiary |
| President Personal Insurance Agency Co., Ltd. | Majority-owned subsidiary |
| President Insurance Agency Corp. | Majority-owned subsidiary |
| President Chain Store Corp. (PCSC) | Affiliate Company |
| President Pharmaceutical Corporation | Affiliate Company |
| Ton Yi Industrial Corp. | Affiliate Company |
| President Tokyo Co., LTD. | Affiliate Company |
| President International Development Crop. | Affiliate Company |
| President Fair Development Corp. | Affiliate Company |
| Ttet Union Corp. | Affiliate Company |

2) Significant related party transactions and balances

A. Futures security deposits receivable

| | <u>June 30,</u> | |
|-----|-----------------|--------------|
| | <u>2012</u> | <u>2011</u> |
| PFC | \$ 1,378,530 | \$ 1,320,869 |

The futures deposits were used for futures transactions.

B. Receivables from related parties

| | <u>June 30,</u> | |
|-----|-----------------|-------------|
| | <u>2012</u> | <u>2011</u> |
| PFC | \$ 4,552 | \$ 6,429 |

The above receivables pertained to commission revenue from President Futures Corp.

C. Other receivables

| | <u>June 30,</u> | |
|---------------------------------------|-----------------|---------------|
| | <u>2012</u> | <u>2011</u> |
| Uni-President Assets Management Corp. | \$ 49,262 | \$ - |
| PFC | 99,113 | 60,577 |
| | <u>148,375</u> | <u>60,577</u> |

D. Prepayment

| | <u>June 30,</u> | |
|----------------------------------|-----------------|-------------|
| | <u>2012</u> | <u>2011</u> |
| President Fair Development Corp. | \$ - | \$ 5,000 |

The above prepayment pertained to prepaid marketing expense.

E. Deposits-out

| | <u>June 30,</u> | |
|-----|-----------------|-------------|
| | <u>2012</u> | <u>2011</u> |
| PFC | \$ 38,000 | \$ 38,000 |

The above deposits-out pertained to futures settlement.

F. Deposits-in

| | June 30, | |
|-----|-----------|-----------|
| | 2012 | 2011 |
| PFC | \$ 16,000 | \$ 24,000 |

The above deposits-in pertained to securities settlement.

G. Commission income – Futures

| | For the six-month periods ended June 30, | |
|-----|--|-----------|
| | 2012 | 2011 |
| PFC | \$ 30,348 | \$ 34,837 |

PFC was the only broker for this transaction. The commission income was collected on a monthly basis in accordance with contract terms.

H. Handling charge revenue from sales of funds on behalf of others

| | For the six-month periods ended June 30, | |
|---------------------------------------|--|-----------|
| | 2012 | 2011 |
| Uni-President Assets Management Corp. | \$ 16,379 | \$ 16,657 |

The revenues were collected on a monthly basis in accordance with contract terms.

I. Rent revenue

| | | | For the six-month periods ended June 30, | |
|---------------------------------------|-----------------------|---------|---|-----------|
| | Period | Deposit | 2012 | 2010 |
| President Pharmaceutical Corp. | 2010.08.01~2013.07.31 | \$ - | \$ 2,254 | \$ 2,254 |
| Uni-President Assets Management Corp. | 2008.05.01~2014.04.30 | - | 4,088 | 4,088 |
| President Tokyo Co., Ltd. | 2009.04.01~2015.03.31 | - | 3,264 | 3,253 |
| Others | 2009.05.01~2014.12.31 | 631 | 2,256 | 1,765 |
| | | | \$ 11,862 | \$ 11,360 |

The above rent revenue pertained to the rental of office space to the Company's related parties. The rent was determined based on negotiation between the parties, and payable according to the contract.

J. Stock custodian income

| | For the six-month periods ended June 30, | |
|--------------------------------|--|----------|
| | 2012 | 2011 |
| Uni-President Enterprise Corp. | \$ 1,895 | \$ 1,996 |
| Others | 3,888 | 2,897 |
| Total | \$ 5,783 | \$ 4,893 |

K. Clearing charges-futures

| | For the six-month periods ended June 30, | |
|-----|--|-----------|
| | 2012 | 2011 |
| PFC | \$ 16,108 | \$ 25,625 |

L. Labor costs

| | For the six-month periods ended June 30, | |
|------|--|-----------|
| | 2012 | 2011 |
| PCMC | \$ 11,400 | \$ 14,408 |

M. Magazine expenses

| | For the six-month periods ended June 30, | |
|------|--|--------|
| | 2012 | 2011 |
| PCMC | \$ 678 | \$ 822 |

N. Advertisement expenses

For the six-month periods ended June 30.

| | <u>2012</u> | <u>2011</u> |
|----------------------------------|-------------|-----------------|
| President Fair Development Corp. | <u>\$ -</u> | <u>\$ 5,000</u> |

O. Purchases of trading securities - dealer

For the six-month periods ended June 30, 2012 and 2011, stock trading transactions with related parties were as follows:

| <u>For the six-month period ended June 30, 2012</u> | | | |
|---|----------------------|-----------------------|--------------------|
| | <u>Ending Shares</u> | <u>Ending Balance</u> | <u>Loss</u> |
| UNI-President Enterprises Corp. | 604,000 | \$ 27,950 | (\$ 556) |
| Ton Yi Industrial Corp. | 76,000 | 1,199 | (528) |
| President Chain Store Corp. | 3,000 | 475 | (224) |
| Total | | <u>\$ 29,624</u> | <u>(\$ 1,308)</u> |
| <u>For the six-month period ended June 30, 2011</u> | | | |
| | <u>Ending Shares</u> | <u>Ending Balance</u> | <u>Gain/(Loss)</u> |
| UNI-President Enterprises Corp. | 1,100,000 | \$ 45,291 | (\$ 1,734) |
| Ton Yi Industrial Corp. | - | - | (61) |
| President Chain Store Corp. | 282,000 | 44,966 | 1,138 |
| Total | | <u>\$ 90,257</u> | <u>(\$ 657)</u> |

P. The Company sold the 660,000 shares of President Futures Corporation to President International Development Corporation for \$12,540 with the cost of \$12,182 and the gain of \$358.

(Blank)

6. PLEDGED ASSETS

The Company's assets pledged or restricted for use were as follows:

| Assets | June 30, | | Purpose |
|---|-----------|------------|--|
| | 2012 | 2011 | |
| Financial assets at fair value through profit or loss - current: | | | |
| Trading securities (par value) | | | |
| - Corporate bonds | \$ - | \$ 100,000 | Securities for bonds sold under repurchase agreements |
| - Government bonds | 6,721,800 | 4,767,800 | Securities for bonds sold under repurchase agreements |
| - Oversea bonds | 695,505 | - | Securities for bonds sold under repurchase agreements |
| Financial assets at fair value through profit or loss - non-current (par value) | | | |
| - Government bonds | 50,000 | - | Trust fund deposit-out |
| Restricted assets: | | | |
| - Demand deposits | 948 | 124,643 | Collections on behalf of third parties and reimbursement for wages and stocks |
| - Pledged time deposits | 1,427,500 | 1,427,500 | Securities for short-term loans and guarantees for issuance of commercial papers |
| - Deposits-in | 393,175 | 718,125 | Deposits-in for foreign currency securities |
| Fixed assets | | | |
| - Land and buildings (book value) | 1,346,369 | 1,357,050 | Securities for short-term loans and guarantees for issuance of commercial papers |
| Pledged time deposits | | | |
| - Operating guarantee deposits | 702,000 | 702,000 | Security deposits |
| - Deposits-out | - | 78,000 | Additional corporate income taxes |
| Idle assets | | | |
| - Land and buildings (book value) | 38,297 | 38,539 | Securities for short-term loans and guarantees for issuance of commercial papers |

7. SIGNIFICANT COMMITMENTS

As of June 30, 2012, the Company entered into various operating lease agreements and the future minimum rental commitments are as follows:

| Year | Amount |
|------------------------|-------------------|
| 2012(July to December) | \$ 43,834 |
| 2013 | 70,262 |
| 2014 | 49,738 |
| 2015 | 36,829 |
| 2016 and onwards | 30,527 |
| | <u>\$ 231,190</u> |

8. SIGNIFICANT LOSS FROM NATURAL DISASTER

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

10. OTHERS

1) The fair values of the financial instruments

| | June 30, 2012 | | |
|--|----------------------|-------------------------|---|
| | <u>Book value</u> | <u>Fair value</u> | |
| | | <u>an active market</u> | <u>Estimated using a valuation method</u> |
| Assets: | | | |
| <u>Non-derivative financial instruments</u> | | | |
| Financial assets with fair value equal to book value | \$ 17,536,235 | \$ - | \$ 17,536,235 |
| Financial assets for trading purposes - current | 14,419,550 | 14,419,550 | - |
| Available-for-sale financial assets - current | 691,525 | 691,525 | - |
| Financial assets at fair value through profit and loss-non current | 51,263 | 51,263 | - |
| Operating guarantee deposits | 702,000 | - | 702,000 |
| Exchange clearing deposits | 286,961 | - | 286,961 |
| Deposits-out | 66,932 | - | 66,932 |
| <u>Derivative financial instruments</u> | | | |
| Buy option - futures | 7,609 | 7,609 | - |
| Futures guarantee deposits receivable | 1,378,530 | 1,378,530 | - |
| Derivative financial instrument assets - OTC | <u>94,158</u> | <u>-</u> | <u>94,158</u> |
| Total | <u>\$ 35,234,763</u> | <u>\$ 16,548,477</u> | <u>\$ 18,686,286</u> |
| Liabilities: | | | |
| <u>Non-derivative financial instruments</u> | | | |
| Financial liabilities with fair value equal to book value | \$ 19,896,389 | \$ - | \$ 19,896,389 |
| Deposits-in | 22,391 | - | 22,391 |
| Security lending payable | 92,097 | 92,097 | - |
| <u>Derivative financial instruments</u> | | | |
| Put option - futures | 6,956 | 6,956 | - |
| Warrants | 2,835,172 | 2,835,172 | - |
| Repurchase of warrants | (2,749,023) | (2,749,023) | - |
| Derivative financial instrument liabilities - OTC | 166,319 | - | 166,319 |
| Other financial liabilities - current | <u>126,198</u> | <u>-</u> | <u>126,198</u> |
| Total | <u>\$ 20,396,499</u> | <u>\$ 185,202</u> | <u>\$ 20,211,297</u> |

(Continued)

| | June 30, 2011 | | |
|---|----------------------|---|---|
| | | Fair value | |
| Assets: | <u>Book value</u> | <u>Quotations in an active market</u> | <u>Estimated using a valuation method</u> |
| <u>Non-derivative financial instruments</u> | | | |
| Financial assets with fair value equal to book value | \$ 23,275,945 | \$ - | \$ 23,275,945 |
| Financial assets for trading purposes - current | 12,232,684 | 12,232,684 | - |
| Available-for-sale financial assets - current | 2,059,942 | 2,059,942 | - |
| Operating guarantee deposits | 702,000 | - | 702,000 |
| Exchange clearing deposits | 427,941 | - | 427,941 |
| Deposit-out | 149,733 | - | 149,733 |
| <u>Derivative financial instruments</u> | | | |
| Buy option - futures | 32,526 | 32,526 | - |
| Futures guarantee deposits receivable | 1,320,869 | 1,320,869 | - |
| Derivative financial instrument assets - OTC | <u>1,780</u> | <u>-</u> | <u>1,780</u> |
| Total | <u>\$ 40,203,420</u> | <u>\$ 15,646,021</u> | <u>\$ 24,557,399</u> |
| <u>Liabilities:</u> | | | |
| <u>Non-derivative financial instruments</u> | | | |
| Financial liabilities with fair value equal to book value | \$ 25,104,056 | \$ - | \$ 25,104,056 |
| Deposits-in | 29,567 | - | 29,567 |
| Security lending payable | 116,407 | 116,407 | - |
| <u>Derivative financial instruments</u> | | | |
| Put option - futures | 111,301 | 111,301 | - |
| Warrants | 4,001,597 | 4,001,597 | - |
| Repurchase of warrants | (3,629,281) | (3,629,281) | - |
| Derivative financial instrument liabilities - OTC | 1,943 | - | 1,943 |
| Other financial liabilities - current | <u>235,669</u> | <u>-</u> | <u>235,669</u> |
| Total | <u>\$ 25,971,259</u> | <u>\$ 600,024</u> | <u>\$ 25,371,235</u> |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- A. For short-term instruments, the fair values were determined based on their carrying values because of their short maturities. This method was applied to cash and cash equivalents, bonds purchased under resale agreements, margin loans receivable, refinancing security deposits, receivables from refinancing security, receivables from security lending, security lending deposits, notes receivable, accounts receivable, other receivables, restricted assets-current, operating guarantee deposits, exchange clearing deposits, deposits out, short-term loans, commercial papers payable, bonds sold under repurchase agreements, deposit on short sales, short sale proceeds payable, guarantee deposit received on borrowed securities, accounts payable, other payables (excluding income tax payable), collections on behalf of third parties, deposits-in, and securities brokerage credit accounts-net.
- B. For securities purchased and underwritten, the fair values were determined based on quoted market prices at the balance sheet date except for emerging stocks and the delisted stocks without significant influence which were based on cost. Open-end mutual funds beneficiary certificates are measured by their net assets value at the balance sheet date. Available-for-sale financial assets are revalued by the fair values.

- C. The fair values of operating security deposits and exchange clearing deposits at the balance sheet date were valued at book value, as they primarily consist of time deposits pledged.
 - D. The fair values of derivative financial instruments were determined based on the amounts to be received or paid assuming the contracts were settled as of the reporting date, which include unrealized gains or losses on unsettled contracts.
 - E. The fair values of financial assets and liabilities held for trading which is a non-derivative financial instrument are based on their quoted prices in an active market. The fair values of financial assets and liabilities held for trading which are derivative financial instruments are based on their market prices if their quoted prices are readily and regularly available from an active market; however if they have no quoted prices in an active market, their fair values are determined based upon the amounts to be received or paid assuming that the contracts are settled as of the reporting date.
 - F. If available-for-sale financial instruments have quoted prices in an active market, their fair value is based on their quoted price; otherwise, their fair value is valued by using a valuation technique. The estimates and assumptions used to value the fair value through the valuation technique are the same as those used by market participants to set the price for financial instruments, which are accessible to the Company. The fair values of available-for-sale financial instruments which belong to unlisted stocks are not disclosed since they have no quoted prices in an active market and their fair value cannot be measured reliably.
- 2) As of June 30, 2012, the financial assets and financial liabilities with fair value risk due to the change of interest amounted to \$21, 885,978 and \$17,449,854, respectively, and the financial assets and financial liabilities with cash flow risk due to the change of interest amounted to \$93,197 and \$115,149, respectively.
 - 3) For the six-month period ended June 30, 2012, total interest income and total interest expense on financial assets or financial liabilities that were not at fair value through profit or loss amounted to \$351,732 and \$59,641, respectively.
 - 4) Procedure of financial risk control hedge

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.

The Company has a Risk Controller to supervise all of the Company's risk management strategies. The responsibility of the Risk Controller includes the following:

- A. Setting all of the Company's risk management systems;
- B. Developing efficient methods to measure and manage the Company's risks;
- C. Reviewing the risk management system, business quota, evaluation model and

- application of exception management of the business departments;
- D. Collecting data, summarizing information, generating risk reports;
 - E. Analyzing the market, situation of credit and liquidity risk and reporting the results to the CEO;
 - F. Reporting the risk management situation to the risk management and audit committee based on the demand and essence of the meeting; and
 - G. Executing the items designated by the risk management and audit committee.

a) Financial risk management:

The purpose of financial risk management is to ensure the completeness of the risk management system, execute the monitoring mechanism, increase the efficiency of the risk management and set the risk management policies. By setting a consistent compelling standard, the Company can control all the possible risks within a pre-setting range, actively seek growth in every business scope and attain the objective of maximizing capital return.

The risks faced by the Company include market risk, credit risk, liquidity risk, cash flow risk, operating risk and lawsuit risk. The risk management system is established to efficiently control the entire Company's risk. The Company's risk management system includes an independent risk management department and a risk management organizational structure, including the Board of Directors, risk and audit management committee, risk control office, inspection and audit office, legal affairs section and the financial department.

b) Hedging strategies (financial hedging):

The Company's strategies use derivatives to control the risk of price volatility within a certain range. The strategies are set according to the Company's capacity for tolerating risk.

i) Equity securities

The Company will bear the risk of value loss when there is an unfavorable change in the price of the target security. The methods adopted include lowering the current position and employing TX futures, TF futures and TE futures. The market value of open position is limited to the market value of the current position of TSE stocks held by the Company or a certain percentage of the net value of the Company at the end of the prior month, whichever is lower. When the net value is less than the paid-in capital, paid-in capital is used.

ii) Fixed income securities

The major risk associated with fixed income securities results from changes in interest rates. The Company bears market risk when the change in interest rates is unfavorable. The Company uses derivatives such as interest rate swaps, governmental bond futures and bond options to hedge the market risk.

iii) Warrants

The market risk of warrants includes Delta risk, Gamma risk, position risk, hedging compound value loss risk, VaR risk, warrant market creating risk and reissuance risk. The Company monitors such risks based on the authorized limit, risk management principles and department risk management mechanisms, and controls market risk and liquidity risk of hedging operations by adjusting the number of shares of the underlying

securities after the issuance of warrants. The authorized limit of hedging position falls in certain range of the theoretical hedging number of shares.

iv) Structured notes

Structured notes are a combination of fixed income securities and options. The market risk of structured instruments includes risk resulting from changes in stock prices, volatility and interest rates. To lower the market risk resulting from engaging in business, not only the interest generated from investing in fixed income securities is used to repay the principal due, but also the Company establishes a dynamic hedging position. Hedging position is usually within a range centering on the theoretical hedge amount.

v) Convertible bond asset swap

The Company can detach the option from the convertible bond and sells them to the market separately. This business involves market risk and credit risk of the counterparty. To lower the market risk, the Company sells the fixed income security part and the option part separately while credit limit is applied to lower the credit risk from the counterparty.

5) Information of financial risk

A) Derivative financial instruments

| <u>Items</u> | <u>June 30,</u> | |
|--|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| | <u>Book value</u> | <u>Book value</u> |
| <u>Assets:</u> | | |
| Buy option - futures | \$ 7,609 | \$ 32,526 |
| Futures guarantee deposits receivable | 1,378,530 | 1,320,869 |
| Interest rate swap contracts | 93,196 | 1,562 |
| Exchange rate swap | 763 | - |
| Financial assets held for trading - CB options | - | 218 |
| ELN - options | 199 | - |
| Total | <u>\$ 1,480,297</u> | <u>\$ 1,355,175</u> |
| <u>Liabilities:</u> | | |
| Warrants | \$ 86,149 | \$ 372,316 |
| Put option - futures | 6,956 | 111,301 |
| Asset swap options | 33,907 | 1,826 |
| Interest rate swap contracts | 115,149 | - |
| Exchange rate swap contracts | 17,236 | - |
| Structured notes | 27 | 117 |
| ELN liabilities - Option premium (Note) | 26,200 | 35,700 |
| PGN liabilities - Fixed income securities (Note) | 99,998 | 199,969 |
| Total | <u>\$ 385,622</u> | <u>\$ 721,229</u> |

Note: recorded as "other financial liabilities".

(Blank)

B) The Company's derivative financial instruments were as follows:

| | For the six-month period ended June 30, 2012 | |
|--|--|------------------------------------|
| | Gain (loss) on derivative financial assets – OTC | Unrealized gain (loss) included |
| Interest rate swaps - non-hedging | (\$ 5,892) | (\$ 10,604) |
| Options - asset swaps | (25,033) | (24,918) |
| Equity - linked note | 248 | 388 |
| Principal guaranteed note | (324) | (21) |
| Buy options - non-hedging | (909) | - |
| Buy options - hedging | 15 | - |
| Total | <u>(\$ 31,895)</u> | <u>(\$ 35,155)</u> |
| | For the six-month period ended June 30, 2011 | |
| | Gain (loss) on derivative financial assets – OTC | Unrealized gain (loss) included |
| Interest rate swaps - non-hedging | (\$ 42,659) | (\$ 11,182) |
| Options - asset swaps | 638 | 638 |
| Investment loss before treasury bonds issued | (13,259) | - |
| Equity - linked note | 2,359 | 20 |
| Principal guaranteed note | (218) | 141 |
| Bond options - non-hedging | (1,162) | - |
| Buy options - hedging | 992 | (179) |
| Total | <u>(\$ 53,279)</u> | <u>(\$ 10,562)</u> |

C) Information on financial instruments

a) Trading of futures

The list of deposits for trading futures:

| | June 30, | |
|--|---|---------------------|
| | 2012 | 2011 |
| Futures security deposits receivable | <u>\$ 1,378,530</u> | <u>\$ 1,320,869</u> |
| Excess security deposits | <u>\$ 1,349,239</u> | <u>\$ 745,249</u> |
| Gain (loss) on derivative financial assets - Futures of futures department - dealer: | | |
| | For the six-month periods ended June 30, | |
| | 2012 | 2011 |
| Gain (loss) on futures contract | \$ 505,496 | (\$ 166,750) |
| (Loss) gain on trading options | (214,504) | 303,747 |
| Total | <u>\$ 290,992</u> | <u>\$ 136,997</u> |

Gain (loss) on derivative financial assets - Futures of futures department - hedging:

| | For the six-month periods ended June 30, | |
|--|---|--------------------|
| | 2012 | 2011 |
| Gain on futures contract - realized | \$ 37,506 | \$ 33,089 |
| (Loss) gain on futures contract - unrealized | (499) | 8,783 |
| Loss on options contract - realized | (35,626) | (66,949) |
| Loss on options contract - unrealized | (802) | (15,353) |
| Total | <u>\$ 579</u> | <u>(\$ 40,430)</u> |

b) Warrants

For information relating to issuance of warrants: please refer to Note 4 (10).

c) Convertible bond asset swaps and options

The Company engages in the business of asset swaps and options. Under an asset swap, the Company sells convertible bonds to the counterparty and receives proceeds. Over the contract period, the Company exchanges its cash flows with the counterparty and retains the right to buy back the convertible bonds. Under an option transaction, the Company keeps the right to buy back the convertible bonds or the counterparty has the right to buy the convertible bonds. The Company can clear the position by rendering its currently owned bonds. As of June 30, 2012 and 2011, notional principal of convertible bond options sold were \$269,501 and \$50,000, respectively.

d) Interest rate swap contracts

The purpose of the Company to enter into an interest rate swap contract is to earn the interest gap based on the Company's estimation toward the interest rate trend. The contracts entered with financial institutions are valid for 1~5 years without any anticipation of material credit risk, and the interest will be received and paid according to floating interest rate and fixed interest rate, respectively. Most of the counterparties are financial institutions. As of June 30, 2012 and 2011, the nominal principals were \$180,088,324 and \$213,088,324, respectively.

e) Structured notes

The Company deals in equity linked products and combines fixed income instruments with call or put options. These products are categorized into ELN (Equity-Linked Notes) and PGN (Principal Guaranteed Notes). On trade date, the contracted amounts are collected in full from the counterparties. The payout amount on maturity will depend on the price fluctuation of the instruments linked to these contracts. All the linked products are financial instruments under the supervision of the SFB (Securities and Futures Bureau). As of June 30, 2012 and 2011, the nominal principals of ELN were \$26,200 and \$35,700, respectively, and the nominal principals of PGN were \$100,000 and \$200,000, respectively.

D) Information of financial risk

a) Market risk

i) Market risk refers to risk of asset impairments resulting from market risk factors such as changes in stock prices, interest rates, exchange rates and commodity prices, including directional and non-directional risk. The Company sets authorization limit and VaR (value at risk) limit for each business department as the standard of executing risk management. The Company measures risk using the Monte Carlo Simulation to calculate VaR with a confident interval of 95%.

ii) The Company's business involves some non-functional currency operations. In accordance with EITF 100-046 of the R.O.C. Accounting Research and Development Foundation, dated February 18, 2011, the information on monetary assets and liabilities denominated in foreign currencies whose values would be materially affected by the fluctuations of the foreign exchange rates is disclosed as follows:

| | June 30, | | | | | |
|---------------------------------------|----------|----------------------------------|------------------|----------|----------------------------------|------------------|
| | 2012 | | | 2011 | | |
| | Currency | Foreign amount (in thousands) | Exchange rate | Currency | Foreign amount (in thousands) | Exchange rate |
| <u>Effect on profit or loss</u> | | | | | | |
| Financial assets | | | | | | |
| Cash and cash equivalents | USD | \$ 9,264 | 29.88 | USD | \$ 79 | 28.73 |
| Financial assets at fair value | | | | | | |
| through profit or loss | USD | 20,189 | 29.88 | USD | 14,352 | 28.73 |
| Restricted assets -current | USD | 13,158 | 29.88 | USD | 29,311 | 28.73 |
| Securities brokerage debit account | | | | | | |
| - net | USD | - | - | USD | 6,724 | 28.73 |
| Financial liabilities | | | | | | |
| Bonds sold under repurchase | | | | | | |
| agreements | USD | \$ 2,514 | 29.88 | USD | \$ - | - |
| Guarantee deposit received on | | | | | | |
| borrowed securities | USD | 11,401 | 29.88 | USD | 29,311 | 28.73 |
| <u>Effect on shareholders' equity</u> | | | | | | |
| Financial asset | | | | | | |
| Investments accounted for under | | | | | | |
| the equity method | USD | \$ 59,977 | 29.88 | USD | \$ 64,330 | 28.73 |

b) Credit risk

i) Failure to deliver risk

Failure to deliver risk refers to the risk resulting from the counterparty's failure to execute the duty of delivery.

ii) Risk of degradation of the issuer's credit rating

The risk occurs due to the degradation of the issuer's credit rating.

iii) Default risk

Default risk refers to the risk that the issuer cannot execute its duty.

The maximum credit exposure is equal to the book value of the Company's financial assets minus allowances. Since the Company does not have significant commitment or guaranty items, no significant credit risk is expected to occur.

c) Liquidity risk

1) Liquidity risk position

Liquidity risk occurs when the volume of transactions is insufficient in the market such that the Company will experience difficulty in disposing its position within a reasonable time.

i. Market liquidity risk:

(I) The risk of liquidation results from external factors such as customized products.

(II) Sudden decline in the volume of transactions due to market factors.

ii. Trading liquidity risk:

Internal factors of liquidity risk positions, such as inventory position for more than the normal market trading volume.

2) Cash liquidity risk:

Cash liquidity risk refers to the Company's inability to raise funds at reasonable costs to fulfill the following demand:

(i) The investing position exceeds the original plan so that the Company cannot afford sufficient cash to clear the transaction.

(ii) The Company cannot deposit security on time so the position held is cleared irrevocably.

(iii) Other factors.

The Company ensures the safety of cash flow via cash flow management and control over the credit line. The purpose of the Company's market risk management is to maximize the efficiency of VaR. While the Company pursues this purpose, economic situation, competition, and market value risk and its effect on the Company's net interest income are all considered.

d) Fair value risk from changes in interest rates

Fair value risk from changes in interest rates refers to the uncertainty of future cash flows resulting from changes in index interest rates. If the possible risk from interest rate change exceeds the acceptable range, the Company uses interest swaps to hedge the risk.

6) Assets and liabilities of trust accounts

A. The Company obtained the permission of the FSC through the Letter No. 0990051320 to manage the trust assets and liabilities for special financial uses and operating purposes. Moreover, for internal management uses, the trust assets and liabilities are recognized into separate accounts and financial reports.

B. Since the trust service commenced only in December 2011, in accordance with the Trust Enterprise Act and Enforcement Rules No.17, the financial statements of trust accounts were disclosed semi-annually, as follows:

a) Balance sheet of trust accounts:

| <u>Balance Sheet of Trust Accounts</u> | | | |
|--|-----------------|----------------------------|-----------------|
| <u>June 30, 2012</u> | | | |
| <u>Trust Assets</u> | <u>Amount</u> | <u>Trust Liabilities</u> | <u>Amount</u> |
| Bank savings | \$ 306 | Accounts payable | \$ - |
| Fund | 967 | Money trust | 3,892 |
| Securities receivable | 2,630 | Accumulated earnings | 11 |
| Total of trust assets | <u>\$ 3,903</u> | Total of trust liabilities | <u>\$ 3,903</u> |

b) Income statement of trust accounts:

| <u>Income Statement of Trust Accounts</u> | |
|---|---------------|
| <u>For the six-month period ended June 30, 2012</u> | |
| | <u>Amount</u> |
| Trust income | |
| Interest income | \$ 1 |
| Investment income-realized | 26 |
| subtotal | 27 |
| Trust expense | |
| Investment loss-unrealized | (15) |
| Income before income tax | 12 |
| Income tax expense | (1) |
| Net income | \$ 11 |

c) Property list of trust accounts:

| <u>Property List of Trust Accounts</u> | |
|--|---------------|
| <u>June 30, 2012</u> | |
| | <u>Amount</u> |
| Bank savings | \$ 306 |
| Fund | 967 |
| Securities receivable | 2,630 |
| | \$ 3,903 |

(Blank)

11. OTHER DISCLOSURE ITEMS

1) Information about significant transactions

- A. Lending to others: Excluding security margin trading and conditional bond trading business, there is no lending of funds to either the shareholders or other parties.
- B. Endorsements and guarantees for others : None.
- C. Acquisitions of real estate exceeding \$100,000 or 20 percent of contributed capital : None.
- D. Disposals of real estate exceeding \$100,000 or 20 percent of contributed capital : None.
- E. Purchases or sales transactions discount on brokers' charges with related parties in excess of \$5,000 : None.
- F. Receivables from related parties exceeding \$100,000 or 20 percent of contributed capital : None.

2) Related information of investee companies

A. Related information of investee companies

| Name of the investor | Name of the investee company | Location | Major operating activities | Original investment | | Ending balance | | | Net income (loss) of investee company | Investment income (loss) recognized by the Company | Notes |
|----------------------------------|---|------------------------|--|--------------------------|--------------------------|----------------|------------|-------------|---------------------------------------|--|------------------------------------|
| | | | | Balance on June 30, 2012 | Balance on June 30, 2011 | Shares | Percentage | Book value | | | |
| President Securities Corp. | President Futures Corp. | Taipei | Futures brokerage | \$ 644,650 | \$ 651,317 | 63,817,303 | 96.69% | \$1,111,106 | \$ 55,775 | \$ 55,688 | Subsidiary of the Company |
| | President Capital Management Corp. | Taipei | Securities investment consulting | 150,000 | 150,000 | 12,400,000 | 100.00% | 146,863 | 1,141 | 1,172 | Subsidiary of the Company |
| | President Securities (HK) Ltd. | Hong Kong | Securities dealer , brokerage, underwriting and consulting | 34,030 | 34,030 | 10,000,000 | 5.19% | 61,064 (| 50,124) (| 2,707) | Subsidiary of the Company |
| | President Securities (BVI) Ltd. | British Virgin Islands | Securities investment and holding company | 2,264,573 | 2,264,573 | 67,746,000 | 100.00% | 1,792,108 (| 43,060) (| 44,985) | Subsidiary of the Company |
| | Uni-President Assets Management Corp. | Taipei | Investment Trust | 624,940 | 624,940 | 13,570,830 | 38.66% | 379,202 | 84,190 | 33,011 | Notes |
| | President Personal Insurance Agency Co., Ltd. | Taipei | Insurance Agent | 5,000 | 5,000 | 500,000 | 100.00% | 7,431 | 1,015 | 1,016 | Subsidiary of the Company |
| | President Insurance Agency Corp. | Taipei | Insurance Agent | 5,000 | 5,000 | 500,000 | 100.00% | 11,081 | 2,296 | 2,296 | Subsidiary of the Company |
| President Securities (BVI) Ltd. | President Securities (HK) Ltd. | Hong Kong | Securities dealer , brokerage, underwriting and consulting | 814,705 | 814,705 | 182,600,000 | 94.81% | 1,117,439 (| 50,124) (| 47,523) | Subsidiary of the Company |
| | President Wealth Management (HK) Ltd. | Hong Kong | Wealth management | 92,091 | 92,091 | 23,400,000 | 100.00% | 56,330 (| 2) (| 2) | Indirect subsidiary of the Company |
| | President Securities (Nominee) Ltd. | Hong Kong | Nominee Service | 3,403 | 3,403 | 1,000,000 | 100.00% | 2,463 (| 3) (| 3) | Indirect subsidiary of the Company |
| President Insurance Agency Corp. | Uni-President Assets Management Corp. | Taipei | Investment Trust | 478 | 478 | 12,000 | 0.03% | 382 | 84,190 | 29 | Notes |

Notes: Investee company accounted for under the equity method.

- B. Lending to others: Excluding security margin trading and conditional bond trading business, there is no lending of funds to either the shareholders or other parties.
- C. Endorsements and guarantees for others : None.
- D. Acquisitions of real estate exceeding \$100,000 or 20 percent of contributed capital : None.
- E. Disposals of real estate exceeding \$100,000 or 20 percent of contributed capital : None.
- F. Purchases or sales transactions discount on brokers' charges with related parties in excess of \$5,000 : None.
- G. Receivables from related parties exceeding \$100,000 or 20 percent of contributed capital : None.
- H. Disclosure required by Ministry of Finance, Ruling No. 0920004507:
- a) Securities held as of June 30, 2012 of President Securities (BVI) Ltd.:

| <u>Securities types and name</u> | <u>Type</u> | <u>Number of shares</u> | <u>Carrying value</u> | | <u>Expressed in U.S. Dollars Fair value</u> | |
|--|------------------|-------------------------|-----------------------|----------------------|---|----------------------|
| | | | <u>Unit price</u> | <u>Amount</u> | <u>Unit price</u> | <u>Amount</u> |
| <u>Financial assets at fair value through profit or loss - current</u> | | | | | | |
| FL. R GSC EUROPEAN CDO | STRUCTURED NOTES | 2,500,000 | \$ 1.000 | \$ 2,500,000 | \$ 0.478 | \$ 1,195,652 |
| FL. R ARES VIR | STRUCTURED NOTES | 5,000,000 | 0.995 | <u>4,975,000</u> | 0.476 | <u>2,379,348</u> |
| | | | | 7,475,000 | | 3,575,000 |
| Less : impairment loss | | | | (3,900,000) | | - |
| Total | | | | <u>\$ 3,575,000</u> | | <u>\$ 3,575,000</u> |
| <u>Long-term investment - equity method</u> | | | | | | |
| President Securities (HK) Ltd. | STOCK | 182,600,000 | 0.205 | \$ 37,397,550 | 0.205 | \$ 37,397,550 |
| President Wealth Management (HK) Ltd. | STOCK | 23,400,000 | 0.189 | 1,885,213 | 0.189 | 1,885,213 |
| President Securities (Nominee) Ltd. | STOCK | 1,000,000 | 0.082 | <u>82,437</u> | 0.082 | <u>82,437</u> |
| Total | | | | <u>\$ 39,365,200</u> | | <u>\$ 39,365,200</u> |

- b) Derivative financial instrument transactions and the source of capital of President Securities (BVI) Ltd :
As of June 30, 2012, the carrying value of USD 3,575,000 of asset securitization for derivatives was undertaken with the Company's own capital of USD 7,475,000.
- c) At June 30, 2012, President Securities (BVI) Ltd. had no litigation cases.

d) Balance sheets

PRESIDENT SECURITIES (BVI) LTD.
BALANCE SHEETS
JUNE 30, 2012 AND 2011

| | | Expressed in U.S. dollars | | | | | | | | | |
|---|----------------------|---------------------------|----------------------|-------------|---|----------------------|-------------|----------------------|------------|-------------|--|
| | | <u>2012</u> | | <u>2011</u> | | | | <u>2012</u> | | <u>2011</u> | |
| <u>Assets</u> | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> | <u>Liabilities and shareholders' equity</u> | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> | | |
| Current assets | | | | | Current liabilities | \$ - | - | \$ - | - | | |
| Cash and cash equivalents | \$ 17,084,810 | 28 | \$ 16,295,430 | 25 | Shareholders' equity | | | | | | |
| Financial assets at fair value through profit or loss - current | 3,575,000 | 6 | 3,575,000 | 6 | Share capital | 67,746,000 | 113 | 67,746,000 | 105 | | |
| Other receivables | 16,248 | - | 6,294 | - | Capital reserve | 757,813 | 1 | 757,813 | 1 | | |
| Restricted assets | - | - | 600,000 | 1 | Cumulative translation adjustments | 738,540 | 1 | 596,279 | 1 | | |
| Total current assets | <u>20,676,058</u> | <u>34</u> | <u>20,476,724</u> | <u>32</u> | Accumulated deficit | <u>(9,201,095)</u> | <u>(15)</u> | <u>(4,759,316)</u> | <u>(7)</u> | | |
| Long-term investment - equity method | <u>39,365,200</u> | <u>66</u> | <u>43,864,052</u> | <u>68</u> | Total shareholders' equity | <u>60,041,258</u> | <u>100</u> | <u>64,340,776</u> | <u>100</u> | | |
| Total assets | <u>\$ 60,041,258</u> | <u>100</u> | <u>\$ 64,340,776</u> | <u>100</u> | Total liabilities and shareholders' Equity | <u>\$ 60,041,258</u> | <u>100</u> | <u>\$ 64,340,776</u> | <u>100</u> | | |

e) Statements of income

PRESIDENT SECURITIES (BVI) LTD.
STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011

| Accounts | 2012 | | 2011 | |
|---|-------------------------|----------------|-------------------------|------------------|
| | Amount | % | Amount | % |
| Revenues | | | | |
| Interest revenue | 186,121 | 100 | 41,979 | 99 |
| Non-operating revenue | <u>139</u> | <u>-</u> | <u>396</u> | <u>1</u> |
| Total | <u>186,260</u> | <u>100</u> | <u>42,375</u> | <u>100</u> |
| Expenditures | | | | |
| Investment loss accounted for under the equity method | (1,603,125) | (861) | (2,772,827) | (6,543) |
| Operating expenses | (35,390) | (19) | (31,322) | (74) |
| Non-operating expenses | <u>(10)</u> | <u>-</u> | <u>(10)</u> | <u>-</u> |
| Total | <u>(1,638,525)</u> | <u>(880)</u> | <u>(2,804,159)</u> | <u>(6,617)</u> |
| Net loss | <u>(\$ 1,452,265)</u> | <u>(780)</u> | <u>(\$ 2,761,784)</u> | <u>(6,517)</u> |

f) Transactions between related parties and foreign business : None

3). Disclosure of investment in Mainland China : Not applicable.

12. SEGMENT FINANCIAL INFORMATION

In accordance with R.O.C. SFAS No. 41, "Operating Segments", segment information is disclosed in the consolidated financial statements.

13. PRE-DISCLOSURE INFORMATION FOR IFRSs ADOPTION

In accordance with Jin-Guan-Pao-Tzai Letter No. 0990004943 dated February 2, 2010, pre-disclosure information for IFRSs adoption is disclosed in the consolidated financial statements.