



Yuanta Securities Finance Co., Ltd.

2012Annual Report

1. Contact information of company spokesperson and deputy spokesperson

	Company Spokesperson	Company Deputy Spokesperson
Name/Title	Chuang Yu-De / Chairman	Hong Rong-Ting / Vice President
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E-mail	YudeChuang@yuanta.com	DavidHong@yuanta.com

2. Contact information of YSF

Company Name	Address	
	Website	Tel
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	http://www.yuantafinance.com.tw	(02) 2173-6833

3. Contact information of stock transfer agent

Stock Transfer Agent	Stock-Related Services Dept., Yuanta Securities	Tel	(02) 2586-5859
Website	http://agent.yuanta.com.tw	Address	B1, No.210, Chengde Rd., Sec. 3, Taipei Taiwan

4. Contact information of credit rating agency

Credit Rating Agency	Address	Tel
Taiwan Ratings Corporation	49F, No. 7, Xinyi Rd., Sec. 5, Taipei, Taiwan (Taipei 101 Building)	(02) 8722-5800

5. Contact information of independent accountants

Name	Lin Sk, Kuo Ellen	Tel	(02) 2729-6666
CPA Firm	PricewaterhouseCoopers Taiwan	Address	27F, International Trade Building, No.333, Keelung Rd., Sec. 1, Taipei, Taiwan
Website	http://www.pwc.com/tw/		

6. Name of foreign exchanges listed where company stock is and sources for searching the said foreign listed stock : None

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I. Letter to Shareholders

1. Business report for the 2012 fiscal year

A. Business plan and accomplishments.

Margin loans and stocks loans are the company's core business. The company upholds positive, reliable and efficient concepts to continue serving agency and consolidated securities firms and establish partnerships with agency. The impact of "imposition of capital gain tax" caused market investors' confidence to fall in the early of 2012. Since the stock market's trade volume were insufficient, the market financing balance dropped and The Company's financing balance dropped drastically. Our business accomplishments are as follows:

Unit: Hundred million NT\$

Average balance of margin loans and re-financing	Average balance of stocks loans and stocks re-financing (guarantee fund + margin)	Average balance of securities lending
143.05	25.88	11.33

B. Financial income and expenses / profitability analysis

The Company's 2012 operating revenue decreased by 33.64% compared to 2011 mainly due to a NT\$7.649 billion or 34.84% decrease in financing and refinancing average balance compared to 2011. Net operating income decreased by 39.44% and corresponding operating costs also declined by 37.49%. In addition, non-operating income and profit decreased 30.92%. Non-operating expenses and losses increased 274.37% mainly due to the NT\$105.861 million gain on disposal of financial assets in 2011 and the NT\$77.824 million loss on disposal of financial assets in 2012. After-tax profit in 2012 was decrease by 44.93% compared to 2011, details are as follows:

Year	Total assets (thousand dollars)	Total income (thousand dollars)	Net income (thousand dollars)	EPS(NT\$)
2011	19,740,002	1,706,960	764,442	0.75
2012	16,245,667	1,139,639	420,989	0.70

C. Research and development

The company is continuing to implement an information platform and in-depth cooperation program, strengthen securities trader information services, and engage in diversified business through a franchise channel approach in conjunction with the group's diversified products, ensuring that Yuanta Securities Finance's agent services indirectly benefit.

2. Summary of business plan for the 2013 fiscal year

A. Business plan

- (1) Stabilize current agency firms: It will rely on sales promotion activities and service packages supporting agents to strengthen the competitiveness of agents and consolidate its relationships.
- (2) Expand negotiable securities lending services: Responding to the growth of derivative markets and increase in strategic trading, it will take proprietary securities traders as its main customer base, and may even extend towards foreign investors.
- (3) Develop the financing operations in the form of capital increase in cash: Establish the Group's capital increase financing platform.
- (4) Create synergies within the financial holding group: Take the initiative in offering agency services to securities firms, such as reconsigned trading, futures introducing broker, settlement banking etc.
- (5) Strictly manage credit risk: It will reinforce risk control and implementation of a quota mechanism, ensuring that risk control and sales growth develop in parallel.

B. Expected 2013 Business Status of Operations

Unit: Hundred million NT\$

Average balance of margin loans and re-financing	Average balance of stocks loans and stocks re-financing (guarantee fund + margin)	Average balance of securities lending
114.10	19.64	10.00

3. Future development strategies of the company

- A. Develop the financing operations in the form of capital increase in cash. By means of amendments to laws and regulations and adjustment of the operations, build the Group's capital increase and financing platform concept and re-activate the capital increase and financing services..
- B. Because the role of securities financing company has been significant change in the market, we will strive for the opportunity of new business and deregulation.

4. Impact from external competitive environment, regulatory environment and overall operational environment

The latest trends in securities financing are that securities financing companies are being merged into various financial groups, and those who do not have the ability to acquire others begin their own securities finance operations. Moreover, due to impact of the reintroduction of the capital gains tax in the beginning of 2012, securities agents faced operating difficulties as a result of declining brokerage fee income and there is an increased willingness to engage in margin trading by themselves or acquisition by a large securities firm. In 2012, there are one agency run securities finance operations by themselves, and two agencies merged by another securities company. All these developments will affect the company's market share.

II. Company Profile

1. Date of establishment

Date founded: March 10, 1980

Date of incorporation: April 21, 1980

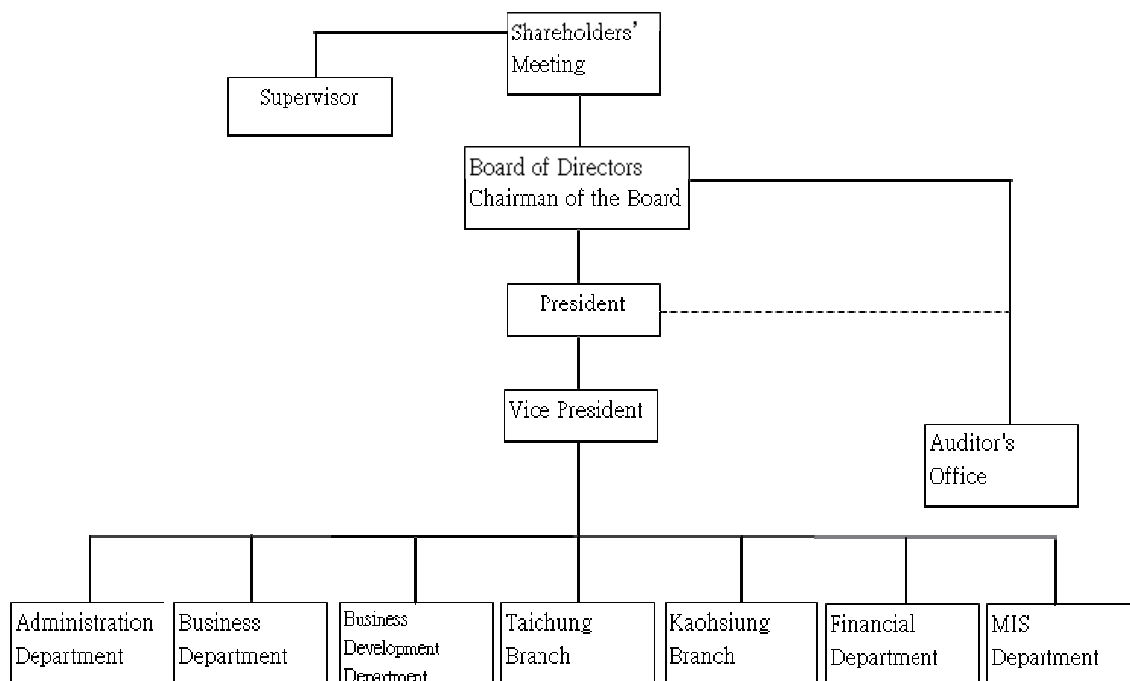
2. Company milestones

April 1980	The company granted permission by the Ministry of Finance and Securities and Futures Bureau to operate just the securities margin financing and security loans business. The founding vision of the company was to promote growth in the securities market, regulate the supply of money in the securities market and establish a comprehensive securities financing system.
September 1981	Operated stock depository business to provide safe and secure settlement in securities markets.
September 1990	1. Transferred stock depository business, staff, equipment and stock to the depository company. 2. Passage of the amendments to the Rules Governing <i>Securities</i> Finance Enterprises enabled the company to expand its business beyond securities margin financing to include refinancing business for securities margin financing firms.
July 1992	Taichung branch established
September 1993	Kaohsiung branch established
November 1994	Officially became a listed company, and shared the operating results with the public
February 2002	Co-transformed with Fuhwa Securities to establish Fuhwa Financial Holding Co., Ltd.
September 2007	Name changed to Yuanta Securities Finance.
November 2007	Completed NT \$1 billion capital increase.
August 2008	Completed NT\$6 billion capital increase.
May 2009	Completed NT\$1.5 billion capital increase via capital reserve
February 2010	Acquirement of margin loans and stock loans from Entie Securities Finance.
September 2010	Acquirement of margin loans and stock loans and refinancing business from Fubon Securities Finance.
October 2010	Transfer of partial creditor's rights on certain business to Yuanta Securities.
November 2010	Completed NT\$6 billion capital increase via statutory surplus and capital reserve
January 2011	Completed NT\$16.5 billion capital decrease.
June 2011	Completed NT\$3.8 billion capital increase via statutory surplus and capital reserve
November 2011	Completed NT\$3.8 billion capital decrease.

III. Corporate Governance Report

1. Organizational system

A. Organization chart



B. Operating business of the various major departments

- (1) Administration Department: Handles board affairs, human resources, general affairs, cashiering, clerical duties, custodial, security protection, and share affairs, etc.
- (2) Business Development Department: Handles planning, analysis, estimation and evaluation of the company's overall business, management of reinvestment business, business expansion of credit transactions, legal matters, litigation, debt recovery, legal advisory service and legal compliance system, etc.
- (3) Business Department: Credit transaction account processing, securities firms and securities refinancing, cash replenishment and underwriting securities financing, securities underwriter financing, securities settlement financing, securities lending financing , risk control management, etc.
- (4) Financial Department: Handles financial management, financial scheduling, accounting, and "undertaking" government debentures trading.
- (5) MIS Department: Handles the planning, design and implementation of the company's various business data processing affairs.
- (6) Auditor's Office: Audit all internal business divisions.
- (7) Branches: Operates and expands business in the company's respective business locations.

2. Information on directors, supervisors, president, vice president and managers

A. Information on directors and supervisors

January 31, 2012

Title	Name	Date elected (taken office)	Term (years)	Date when first elected	Shareholding when elected		Current shareholding		Spouse and minor children's shareholdings		Shareholding under other's name		Education and selected past positions	Current additional positions	Other heads, directors, or supervisors as spouse or kin within the second degree		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman	Representative of Yuanta Financial Holdings Co. Ltd : Chuang Yu-De	2010.06.29	3	2001.05.22	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 1,650,000,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 600,000,000 shares	100%	—	—	—	—	Masters degree from National Taiwan Cheng Chi University, President and Vice President of the Company; Chief and Deputy Chief of the Ministry of Finance's Finance Bureau	Executive Vice President and Chief Secretary of Yuanta Financial Holdings; Director of Yuanta Foundation	—	—	—
Director	Representative of Yuanta Financial Holdings Co. Ltd : Lee Ya-pin	2010.06.29	3	2009.05.22	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 1,650,000,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 600,000,000 shares	100%	—	—	—	—	Master's degree, Soochow University Graduate School of Law Executive vice president, Yuanta Securities Co., Ltd.; Executive vice president, Senior vice-president, vice-president Yuanta Core Pacific Securities Co., Ltd.; Lecturer in Chung-Yuan Christian University Law department and Yuan-Ze University finance department; vice president, proprietary trading department, AVP Strategic planning office of Sampo Securities, Special Assistance and Manager department Manager of Jing-Huei Tong securities; Researcher in Securities and Futures Institute	The Company's President; Director, Yuanta Venture Capital; Director, Yuanta Venture Capital.	—	—	—

Title	Name	Date elected (taken office)	Term (years)	Date when first elected	Shareholding when elected		Current shareholding		Spouse and minor children's current shareholdings		Shareholding under other's name		Education and selected past positions	Current additional positions	Other heads, directors, or supervisors as spouse or kin within the second degree		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Director	Representative of Yuanta Financial Holdings Co. Ltd : Yu Yao-ting	2010.06.29	3	2010.02.01	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 1,650,000,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 600,000,000 shares	100%	—	—	—	—	Ph.D., University of Texas at Austin (USA) School of Information, Senior Vice President for Yuanta Financial Holdings, Yuanta Core Pacific Securities and Yuanta Securities IT department. Chairman of Sh-En IT Co Ltd	Senior Vice President for Yuanta Financial Holdings IT department ; Executive Vice President of Yuanta Securities Co., Ltd.; Director, Yuanta Futures; Director, Shengyuan Futures Information Co., Ltd.	—	—	—
Director	Representative of Yuanta Financial Holdings Co. Ltd : Yu Kuang-hua	2010.06.29	3	2009.04.16	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 1,650,000,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 600,000,000 shares	100%	—	—	—	—	China Junior College of Marine Technology, Marine Engineering Department Vice-president and Senior assistant vice president, Yuanta Securities Co., Ltd.	Senior Vice-president, Yuanta Securities Co., Ltd. ; Director of Yuanta International Insurance Brokers	—	—	—
Director	Representative of Yuanta Financial Holdings Co. Ltd : Hong Rong-Ting	2010.06.29	3	2011.12.12	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 1,650,000,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 600,000,000 shares	100%	—	—	—	—	MBA from Oregon State University, Assistant Vice President, Senior Manager and Assistant Manager of the Company	The Company's Vice-president, Supervisor of Business Development Department	—	—	—

Title	Name	Date elected (taken office)	Term (years)	Date when first elected	Shareholding when elected		Current shareholding		Spouse and minor children's current shareholdings		Shareholding under other's name		Education and selected past positions	Current additional positions	Other heads, directors, or supervisors as spouse or kin within the second degree		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Super-visor	Representative of Yuanta Financial Holdings Co., Ltd.: Chang Tsai-Yu	2010.06.29	3	2005.06.30	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 1,650,000,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 600,000,000 shares	100%	—	—	—	—	MBA, National Chengchi University; Executive Vice President Yuanta Commercial Bank; Vice President, Yuanta Core Pacific Securities; Director, Core Pacific-Yamaichi International (Hong Kong) Co., Ltd.; Assistant Vice President, Strategic Planning Office, Tinkong Securities Co., Ltd.; Manager, Underwriting (and Bond Department) Yung Li Securities	CFO, Senior Vice President, Yuanta Financial Holdings; Senior Vice President, Yuanta Securities; Supervisor, Yuanta Securities Finance; Supervisor, Yuanta Venture Capital; Supervisor, Yuanta I Venture Capital; Liquidator, Yuanta Financial Consulting Supervisor, Yuanta Life Insurance Agent; Director, Yuanta Securities Asia Financial Services; Director, Yuanta Securities Holding (BVI); Yuanta Asset Management Supervisor; Director of Yuanta Securities (HK) Co. Ltd; Director, Polaris Holdings (Cayman) Ltd.; Director, Polaris Investment Management (Cayman); Director, Shengyuan Futures Information Co., Ltd. (Samoa)	—	—	—
Super-visor	Representative of Yuanta Financial Holdings Co., Ltd.: Liao Yueh-Jung	2010.06.29	3	2010.07.28	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 1,650,000,000 shares	100%	All Directors and Supervisors Represent Yuanta Financial Holdings together and hold 600,000,000 shares	100%	—	—	—	—	B.A from Tamkang University, Senior assistant vice president of Yuanta Securities Co., Ltd.	Senior assistant vice president of Yuanta Securities; Director of Yuanta Securities Holding (BVI); Supervisor of Yuanta Insurance Brokers	—	—	—

Note: 1. Yuanta Financial Holdings (formerly Fuhwa Financial Holding Co) holds all company shares, and assigns all directors and supervisors; the 11th term of directors and supervisors started from June 29th, 2010 and will end on June 28th, 2013.

2. Director Mr. Yu Kuang-hua resigned on December 12nd, 2011; Yuanta Financial Holdings appointed Mr. Yu Kuang-hua as director on February 16th, 2012.

3. The number of shares held while elected is based on the Yuanta Financial Holdings shares held on June 29th, 2010.

4. The date elected is the date that the director or supervisor first takes office.

(1) Main institutional shareholders

7/26/2012

Institutional Shareholders	Main Shareholders of Institutional Shareholders	
Yuanta Financial Holdings	Tsun Chueh Investment Co., Ltd.	3.84%
	Yuan Hung Investment Co., Ltd.	3.34%
	Yuan Hsiang Investment Co., Ltd.	2.82%
	Yu Yang Investment Co., Ltd.	2.76%
	Dedicated investment account managed by Citibank (Taiwan) on behalf of First Worldsec Securities	2.74%
	Bank of Taiwan Co., Ltd.	2.30%
	Lian Da Investment Co., Ltd.	2.16%
	Singapore Government's investment account held in custody by Citibank (Taiwan)	2.12%
	Teng Ta Investment Co. Ltd.	1.52%
	Vatican Gardner Emerging markets Stock index Fund account held in custody by Standard Chartered Bank	1.49%

Note: Data relating to the top ten shareholders was based on the latest book closure date by Yuanta Financial Holdings (2012.7.26).

(2) Major institutional shareholders whose main shareholders are judicial persons

1/31/2013

Institutional Shareholders	Main Shareholders of Institutional Shareholders	
Tsun Chueh Investment Co., Ltd.	Teng Ta Investment Co. Ltd.	19.22%
	Lien Da Investment Co., Ltd.	19.49%
	Chiu Ta Investment Co., Ltd.	18.01%
	Lien Heng Investment Co., Ltd.	18.53%
	Hsing Tsai Investment Co., Ltd.	10.16%
	Ma Wei-Jian	8.27%
	Du Li-Chuang	4.69%
	Lin Yung Tsang	0.78%
	Ma Er Tai	0.69%
	Wu Shu Xuan	0.16%
Yuan Hung Investment Co., Ltd.	Mei Chia Li Investment	45.88%
	Lien Heng Investment Co., Ltd.	33.74%
	Teng Ta Investment Co. Ltd.	15.38%
	Du Li-Chuang	5.00%
Yuan Hsiang Investment Co., Ltd.	Lian Ta Investment Co., Ltd.	44.38%
	Lien Heng Investment Co., Ltd.	19.00%
	Teng Ta Investment Co. Ltd.	18.69%
	Chiu Ta Investment Co., Ltd.	9.96%
	Du Li-Chuang	5.01%
	Hsing Tsai Investment Co., Ltd.	2.96%
Yu Yang Investment Co., Ltd.	Tsun Chueh Investment Co., Ltd.	100%
Dedicated investment account managed by Citibank (Taiwan) on behalf of First Worldsec Securities.	Not applicable	
Bank of Taiwan Co., Ltd.	Taiwan Financial Holdings Co., Ltd.	100%
Lian Da Investment Co., Ltd.	Chiao Hua International Investment Co., Ltd.	45.79%
	Lien Heng Investment Co., Ltd.	37.14%
	Chiu Ta Investment Co., Ltd.	14.02%
	Hsing Tsai Investment Co., Ltd.	2.58%
	Du Li-Chuang	0.47%
Singapore Government's investment account held in custody by Citibank (Taiwan)	Not applicable	
Teng Ta Investment Co. Ltd.	Lien Heng Investment Co., Ltd.	53.58%
	Madcow Venture Capital Ltd.	45.87%
	Du Li-Chuang	0.55%
Vatican Gardner Emerging markets Stock index Fund account held in custody by Standard Chartered Bank	Not applicable	

(3) Information on independency of directors and supervisors and required professional knowledge

Jan 31, 2013

Names	Conditions	Has at least five years of relevant work experience and the following professional qualifications			Compliance with independence criteria (Note)										Number of concurrent independent directorships held at listed companies
		Lecturer or higher ranking position at a public or private university / college in business, law, finance, accounting, or other subject relevant to work at the company	Holding a national examination certificate in a profession or expertise needed by the company; or judge, prosecutor, attorney or CPA credentials	Work experience in business, law, finance, accounting, or other area(s) needed by the company	1	2	3	4	5	6	7	8	9	10	
Chuang Yu-De				✓			✓	✓		✓	✓	✓	✓		
Lee Ya-pin				✓			✓	✓	✓	✓	✓	✓	✓		
Yu Yao-ting				✓			✓	✓			✓	✓	✓		
Yu Kuang-hua				✓			✓	✓	✓		✓	✓	✓		
Hong Rong-Ting				✓		✓	✓	✓	✓	✓	✓	✓	✓		
Chang Tsai-Yu				✓			✓	✓			✓	✓	✓		
Liao Yueh-Jung				✓			✓	✓	✓		✓	✓	✓		

Note: A "✓" is marked in the space beneath a condition number when a director or supervisor has met that condition during the two years prior to election and during his or her period of service; the conditions are as follows:

- (1) Not an employee of the company or an affiliate.
- (2) Not a director or a supervisor of the company or an affiliate (this restriction does not apply, however, when the person is an independent director of the company, its parent company, or a subsidiary in which the company directly and indirectly holds more than 50% of voting shares).
- (3) The director, or his or her spouse or minor child, does not hold, in his or her own name or in another name, more than 1% of the company's total outstanding shares, nor is one of the company's ten largest natural person shareholders.
- (4) Not a spouse, relative within the second degree of kinship, or direct blood relative within the fifth degree of kinship of a person listed in the three foregoing paragraphs.
- (5) Is not the director, supervisor, or employee of an institutional shareholder directly holding more than 5% of the company's total outstanding shares, nor is the director, supervisor, or employee of one of the five largest institutional shareholders in terms of shareholdings.
- (6) Is neither a director, supervisor, or manager, nor a shareholder holding more than 5% of the outstanding shares, of a certain company or organization that has a financial or business relationship with the company
- (7) Is not a professional providing business, legal, financial, accounting, or consulting services to the company or an affiliate, nor is an owner, partner, director, supervisor, or manager, or the spouse of any of the foregoing, of a sole proprietorship, partnership, company, or organization providing such services to the company or an affiliate.
- (8) Is not the spouse or second degree relative of any other director
- (9) Is not a person of the conditions specified in any of the subparagraphs of Article 30 of the Company Act
- (10) Has not been elected as a representative for government units, institutions as prescribed in Article 27 of the Company Act.

B. Information on president, vice presidents and managers

01/31/2013

Title	Name	Date of appointment	Shares held		Shares held by spouse, minor child		Shares held in another's name		Education and selected past positions	Concurrent position at other companies	Managers who are spouses or relatives within the second degree of kinship		
			Shares	%	Shares	%	Shares	%			Title	Name	Relationship
President	Lee Ya-pin	2009.06.01	—	—	—	—	—	—	Master's degree, Soochow University Graduate School of Law Executive vice president, Yuanta Securities Co., Ltd.; Executive vice president, Senior vice-president, vice-president Yuanta Core Pacific Securities Co., Ltd.; Lecturer in Chung-Yuan Christian University Law department and Yuan-Ze University finance department; vice president, proprietary trading department, AVP Strategic planning office of Sampo Securities; Special Assistance and Manager department Manager of Jing-Huei Tong securities; Researcher in Securities and Futures Institute	The Company's President; Director, Yuanta Venture Capital; Director, Yuanta I Venture Capital.	—	—	—
vice President	Hong Rong-Ting	2010.05.01	—	—	—	—	—	—	MBA from Oregon State University, Assistant Vice President, Senior Manager and Assistant Manager of the Company; Nan Ya Plastics Assistant Cost Executive	—	—	—	—
Senior Assistant vice president of Finance Department	Hu Yi-Heng	2012.01.01	—	—	—	—	—	—	Department of Financial and Economic Law in Fu Jen Catholic University, Senior Assistant vice president of Finance Department, Senior Manager and Assistant Manager of the Company; Senior Assistant vice president of Finance Department of Yuanta Securities Co., Ltd.	—	—	—	—
Assistant Vice-president of MIS Department	Chen Ying-Ling	2005.12.01	—	—	—	—	—	—	Department of Business in Providence University, Manager of MIS Department of Yuanta Core Pacific Securities, programmer of Union Insurance Company	—	—	—	—

01/31/2013

Title	Name	Date of appointment	Shares held		Shares held by spouse, minor child		Shares held in another's name		Education and selected past positions	Concurrent position at other companies	Managers who are spouses or relatives within the second degree of kinship		
			Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Assistant Vice-president of Administration Department	Lin Tseng-Chun	2007.09.23							Department of Business Administration, National College of Business, Assistant Vice President of the Administration Department of Yuanta Securities, Company Department Manager and Senior Manager	Assistant Vice-president of the Administration Department of Yuanta Financial Holdings			
Manager of Business Department	Huang Shi-Chun	2010.05.01	—	—	—	—	—	—	Accounting Department in Jinwen University of Science and Technology, Section Chief of the Company; Chief Editor and Researcher of the Research Department of Global Securities	—	—	—	—
Supervisor of Auditor's Office	Cheng Shu-Chin	2010.05.01							Master's degree, Fo Guang University; Assistant Manager of Yuanta Securities; Manager of Fuhwa Securities; Manager of Shinong Securities.				
Senior assistant vice president of Taichung branch	Liu Ying-Shi	2002.07.01	—	—	—	—	—	—	Industrial Management, Vanung University, Manager of the company's Taichung and Kaohsiung branch, Designer of the Taxation Center of Ministry of Finance	—	—	—	—
Manager of Kaohsiung branch	Chen Chi-Ping	2006.11.01	—	—	—	—	—	—	National Chengchi University Department of Public Administration, Assistant Manager, Supervisor, and Section Chief of the Company	—	—	—	—

Note: The Company is a subsidiary of Yuanta Financial Holdings that holds 100% of the shares.

C. Remuneration to directors, supervisors, president and vice presidents

(1) Remuneration to directors

Units: NT\$

Title	Name	Director's remuneration					Sum of A, B, C and D as percentage of net income after tax		Remuneration to concurrent employees						Sum of A, B, C, D, E, F and G and H as percentage of net income after tax		Remuneration from investment in a non-subsidiary enterprise		
		Wages (A)		Severance and retirement payments (B)		Allocated from distribution of earnings (C)			Service expenses (D)		Wages, bonuses, and special allowance, etc. (E)		Severance and retirement payments (F)					Employee bonuses from distribution of earnings (G)	
		The company	Consolidated Subsidiaries	The company	Consolidated Subsidiaries	The company	Consolidated Subsidiaries	The company	Consolidated Subsidiaries	The company	Consolidated Subsidiaries	Cash bonuses	Stock bonuses	Cash bonuses	Stock bonuses	The company		Consolidated subsidiaries	
Chairman	Yuanta Financial Holdings statutory representative: Chuang Yu-De																		
Director	Yuanta Financial Holdings statutory representative: Lee Ya-ph																		
Director	Yuanta Financial Holdings statutory representative: Hong Rong-Ting	7,254,631	7,254,631	-	-	-	1,015,478	1,015,478	1.96%	1.96%	6,877,350	6,877,350	-	124,167	-	124,167	-	-	3.63%
Director	Yuanta Financial Holdings statutory representative: Yu Yao-Ting																		3.63%
Director	Yuanta Financial Holdings statutory representative: Yu Kuang-hua																		none

Note: Chairmen have been assigned a corporate Vehicle and a driver.

Range of remuneration

Breakdown of remuneration to company directors Units: NT\$	Directors			
	Sum of foregoing four items (A+B+C+D)		Sum of foregoing seven items (A+B+C+D+E+F+G)	
	The company	All enterprises invested by the Company I	The company	All enterprises invested by the company J
Below 2,000,000	Lee Ya-pin, Yu Kuang-hua, Yu Yao-Ting, Hong Rong-Ting	Lee Ya-pin, Yu Kuang-hua, Yu Yao-Ting, Hong Rong-Ting	Yu Kuang-hua, Yu Yao-Ting, Hong Rong-Ting	Yu Kuang-hua, Yu Yao-Ting, Hong Rong-Ting
2,000,000 (inclusive) - 5,000,000				
5,000,000 (inclusive) - 10,000,000	Chuang Yu-De	Chuang Yu-De	Chuang Yu-De, Lee Ya-pin	Chuang Yu-De, Lee Ya-pin
10,000,000 (inclusive) - 15,000,000				
15,000,000 (inclusive) - 30,000,000				
30,000,000 (inclusive) - 50,000,000				
50,000,000 (inclusive) - 100,000,000				
Over 100,000,000				
Total	Chuang Yu-De, Lee Ya-pin, Yu Kuang-hua, Yu Yao-Ting, Hong Rong-Ting	Chuang Yu-De, Lee Ya-pin, Yu Kuang-hua, Yu Yao-Ting, Hong Rong-Ting	Chuang Yu-De, Lee Ya-pin, Yu Kuang-hua, Yu Yao-Ting, Hong Rong-Ting	Chuang Yu-De, Lee Ya-pin, Yu Kuang-hua, Yu Yao-Ting, Hong Rong-Ting

(2) Remuneration to supervisors

Units: NT\$

Title	Name	Supervisors' remuneration						Sum of A, B, C and that sum as percentage of net income after tax		Remuneration from investment in a non-subsidiary enterprise
		Wages (A)		Allocated from distribution of earnings (B)		business execution expenses (C)				
		The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	
Supervisor	Yuanta Financial Holdings statutory representative: Chang Tsai-Yu	—	—	—	—	400,000	400,000	0.10%	0.10%	None
Supervisor	Yuanta Financial Holdings statutory representative: Liao Yueh-Jung									

Range of remuneration

Breakdown of remuneration to supervisors Units: NT\$	Supervisors	
	Sum of foregoing three items (A+B+C)	
	The company	All companies in the consolidated statement (D)
Below 2,000,000	Chang Tsai-Yu, Liao Yueh-Jung	Chang Tsai-Yu, Liao Yueh-Jung
2,000,000 (inclusive) - 5,000,000		
5,000,000 (inclusive) - 10,000,000		
10,000,000 (inclusive) - 15,000,000		
15,000,000 (inclusive) - 30,000,000		
30,000,000 (inclusive) - 50,000,000		
50,000,000 (inclusive) - 100,000,000		
Over 100,000,000		
Total	Chang Tsai-Yu, Liao Yueh-Jung	Chang Tsai-Yu, Liao Yueh-Jung

(3) Remuneration to the president and vice presidents

Title	Name	Wages (A)		Saverance and retirement payments (B)		Bonuses and special allowances (C)		Employee bonuses from distribution of earnings (D)			Sum of A, B, C, D and that subject to gift tax and income after tax %		Number of employee stock options obtained		Remuneration on an enterprise requested via subsidiary
		The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	Cash dividends	Stock dividend amount	Consolidated subsidiaries	The company	Consolidated subsidiaries	The company	Consolidated subsidiaries	
President	Lee Ya-Pin	5,640,000	5,640,000	-	-	4,362,950	4,362,950	166,308	-	166,308	2.42%	-	-	-	None
Vice President	Hong Rong-Ting														

Units: NT\$

Note 1 : President have been assigned a corporate Vehicle and a driver. Vice Presiden Hong have been assigned a corporate Vehicle.

2 : Mr. Hong Rong-Ting is now responsible for supervising the Business Development Department, Business Department, Taichung branch and Kaohsiung branch etc.

Range of remuneration

Breakdown of remuneration to president and vice presidents Units: NT\$	President and vice presidents	
	The company	All companies in the consolidated statement (E)
Below 2,000,000		
2,000,000 (inclusive) - 5,000,000	Hong Rong-Ting	Hong Rong-Ting
5,000,000 (inclusive) - 10,000,000	Lee Ya-Pin	Lee Ya-Pin
10,000,000 (inclusive) - 15,000,000		
15,000,000 (inclusive) - 30,000,000		
30,000,000 (inclusive) - 50,000,000		
50,000,000 (inclusive) - 100,000,000		
Over 100,000,000		
Total	Lee Ya-Pin, Hong Rong-Ting	Lee Ya-Pin , Hong Rong-Ting

(4) Employee Bonus Allotment to Managers

1/31/2013

	Title	Name	Stock dividend amount	Cash dividend amount	Total	Percentage of total amount to net profits after tax (%)
Management	President	Lee Ya-pin	0	324,669	324,669	0.08%
	Vice President	Hong Rong-Ting				
	Senior assistant vice president of Financial Department	Hu Yi-Heng				
	Assistant Vice president of Administration Department	Lin Tseng-Chun				
	Assistant vice president of MIS department	Chen Ying-Ling				
	Supervisor of Business Department	Huang Shi-Chun				
	Supervisor of Auditor's Office	Cheng Shu-Chin				
	Assistant vice president of Taichung branch	Liu Ying-Shi				
	Manager of Kaohsiung branch	Chen Chi-Ping				

*The employee bonuses allotments are estimated value as it is not issued yet.

D. Analysis of Remuneration for Director(s), Supervisor(s), President and Vice-President(s) in the past two years

- (1) Ratio of total amount to the net profits after tax of remuneration to Director(s), Supervisor(s), President and Vice-President(s):

Ratio of total amount to the net profits after tax of remuneration to director(s), supervisor(s), President and Vice-President(s) was around 2.79% in 2011; and around 4.48% in 2012.

- (2) The relationships between the policy, standard, and combination of remuneration, remuneration establishment procedure and operating performance:

The remuneration to directors, supervisors, presidents and vice presidents, in addition to referring to the standards of other financial institutions, is also in accordance with the regulations of Articles of Incorporation, and considers the company's operating performance and relevant reward bonus measures. The company's net profits after tax in 2012 was NT\$420,989,000, which is about 55.07% the net profits after tax in 2011 (NT\$764,442,000). Due to the decrease in net profits after tax, the total amount to directors, supervisors, presidents and vice presidents also decrease. The percentage of total amount of remuneration to the net profits after tax increased slightly.

3. State of corporate governance

A. Operation of the Board of Directors

A total of 8 (A) board meetings were held in 2012; the attendance of Directors and Supervisors is listed below:

Title	Name	Actual Attendance (B)	Attendance by proxy	Actual attendance rate (%) [B/A]	Remark
Chairman	Yuanta Financial Holdings representative: Chuang Yu-De	8	0	100	
Director	Yuanta Financial Holdings representative: Lee Ya-pin	8	0	100	
Director	Yuanta Financial Holdings representative: Yu Yao-Ting	8	0	100	
Director	Yuanta Financial Holdings representative: Yu Kuang-hua	7	0	100	Appointed on Feb 16, 2012, seven board meetings held since appointment.
Director	Yuanta Financial Holdings representative: Hong Rong-Ting	8	0	100	

Other required items :

A. All items listed in the Securities and Exchange Act Article 14-3 and all written objections or qualified opinions from independent directors recorded in the minutes of the Board of Directors should be clearly stated, including the date, period, contents of resolution, opinions from individual directors, and the company regarding the objections/qualified opinions: N/A, the company does not have independent directors.

B. When a director recused himself or herself from a resolution due to a conflict of interest, the minutes shall clearly state the director's name, content of the resolution, reason for recusal, and participation in voting:

(1) The 20th Meeting of the 11th Board of Directors on January 31, 2012.

For the motions about the procedural correction of the Company's and its subsidiaries' procurement of the SAP in April 2009 and installation of PeopleSoft HR system in December 2009. (Proposal made by Administration Department and Financial Department)

Resolution: Apart from the interested party, who recused himself from the discussion and voting, the remaining directors present agreed to pass the motions. 【Because the three directors were the subject of expense sharing, voting was conducted separately by case.:

- Portion involving Yuanta Financial Holdings, Yuanta Securities and Yuanta Venture Capital: All directors present agreed to pass the motions.
- For Yuanta Securities: Director Yu Yao-Ting recused himself from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.
- For Yuanta Venture Capital: Director Lee Ya-pin recused himself from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.
- For Yuanta Financial Holdings: Chairman Chuang Yu-De, Director Yu Yao-Ting recused themselves from the resolution due to a potential conflict of interest. (Lee Ya-pin was the chair person during the voting) The resolution was approved by all of the other directors in attendance. 】

(2) The 21st Meeting of the 11th Board of Directors on February 29, 2012.

1. In line with the overall planning and operational needs, the Company intends to adjust the rental of the floor area of the Yuanta Financial Holdings Building. This proposal is submitted for approval. (Proposal made by Administration Department)

Resolution:

Director Yu Yao-Ting and Yu Kuang-hua recused themselves from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.

2. Proposed to amend the company's "Chairman & Vice Chairman Severance Pay Policy". This proposal is submitted for approval. (Proposal made by Administration Department)

Resolution:

Chairman Chuang Yu-De recused himself from the resolution due to a potential conflict of interest. Lee Ya-pin was the chair person during the voting. The resolution was approved by all of the other directors in attendance.

3. Proposed to amend the personnel assignment, transfer and concurrent job holding guidelines between the company, Yuanta Financial Holding Co., Ltd. and subsidiary companies. This proposal is submitted for approval. (Proposal made by

Administration Department)

Resolution:

Chairman Chuang Yu-De recused himself from the resolution due to a potential conflict of interest. Lee Ya-pin was the chair person during the voting. The resolution was approved by all of the other directors in attendance.

(3) The 23rd Meeting of the 11th Board of Directors on June 26, 2012.

In order to execute our Company's policy to promote the "taken from community, feedback to society" spirit, fulfill enterprise obligation to complete and improve a good corporate image, the Company would like to contribute a sum of NT\$8,000,000 to the Yuanta Cultural and Educational Foundation. This proposal is submitted for approval. (Proposal made by Administration Department)

Resolution:

Chairman Chuang Yu-De recused himself from the resolution due to a potential conflict of interest. Lee Ya-pin was the chair person during the voting. The resolution was approved by all of the other directors in attendance.

(4) The 24th Meeting of the 11th Board of Directors on July 26, 2012.

For the purpose of transferring the margin trading and short sale initially handled by Ding Fu Securities on behalf of Yuanta Securities Finance would be transferred to Yuanta Securities, the Company intends to sign the "Business Operation Rights Transfer Agreement" with the Yuanta Securities. This proposal is submitted for approval. (Proposal made by Business Development Department)

Resolution:

Director Yu Yao-Ting and Yu Kuang-hua recused themselves from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.

(5) The 25th Meeting of the 11th Board of Directors on August 28, 2012.

In order to meet the actual need, the Company proposed to adjust the lease agreement for Yuanta Financial Holdings Building to change the quantity of parking lots. This proposal is submitted for approval. (Proposal made by Administration Department)

Resolution:

Director Yu Yao-Ting and Yu Kuang-hua recused themselves from the resolution due to a potential conflict of interest. The resolution was approved by all of the other directors in attendance.

C. Measures undertaken during the current year and past year to strengthen the functions of the Board of Directors:

The Company has established corporate governance rules including corporate governance best practice guidelines, board of directors' procedures, duties of directors, continuing education rules for directors and supervisors, self examination list when directors and supervisors take office to strengthen board functions. Measures undertaken during the current year and past year in order to strengthen the functions of the board of directors and conducts reviews at appropriate time based on actual operating conditions.

Note: 1.The attendance rate (%) for Director(s) and Supervisor(s) is calculated by dividing the actual attendance by the total of number of meetings held during the period.

2. Baseline date: December 31, 2012.

B. Operations of the Audit Committee and Supervisor(s) Attendance of Board Meetings:

- (1) The company does not have an audit committee.
- (2) Supervisor attendance of board meetings:

A total of 8 (A) board meetings were held in the most recent year (2012) and the attendance records of the supervisor(s) are listed below:

Title	Name	Actual Attendance (B)	Attendance rate (%) (B / A)	Remark
Supervisor	Yuanta Financial Holdings representative: Chang Tsai-Yu	8	100	
Supervisor	Yuanta Financial Holdings representative: Liao Yueh-Jung	8	100	

Other required items:

A. Supervisor composition and duties:

1. Communication between supervisors, company employees and shareholders:

In order to establish solid supervisory functions for the board of directors and supervisors, a suggestion and complaint mailbox has been set up on the website for use in receiving and handling major deficiencies, fraud and corruption cases and accepting suggesting and complains that can assist with Company business management and development in order to promote smooth communication between the board of directors and employees, investors and interested parties.

2. Communication between supervisors, internal audit supervisors and CPAs (for example communication items, methods and results regarding company finances and sales conditions):

(1) CPAs report and communicate the audit status of the financial report to the supervisors once each quarter.

(2) According to Article §16 of the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", After the submission of the audit report and follow-up reports, the completed audit items are passed to the supervisors for checking and the audit supervisor review the internal control system deficiencies before the end of the following month.

(3) Audit supervisors should review the deficiencies of internal control system and have a regular annual meeting with the person-in-charge (director, supervisor) and minutes are kept of the meeting.

B. If the supervisor states an opinion at a board meeting, record the date, term, resolution contents, director resolution results and how the opinion stated by the supervisor is handled by the board: N/A

Note: 1.The attendance rate (%) is calculated by dividing the actual attendance by the total of number of meetings held during the period.

2.Baseline date: December 31, 2012.

C. Status of corporate governance, non-compliance with the Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies and related reasons

Item(s)	Implementation Status	Non-Compliance with <i>Corporate Governance Best Practice Principles for TSEC/GTSM Listed Companies with Explanations</i>
<p>1. Shareholding structure and Shareholder rights,</p> <p>(1) Handling shareholder suggestions or disputes</p> <p>(2) The company has a roster of its major shareholders and the list of the ultimate owners of these major shareholders</p> <p>(3) Risk management mechanism and firewall between the company and its affiliates</p>	<p>(1) Yuanta Financial Holdings is the sole shareholder of the company; therefore, the company doesn't have this problem.</p> <p>(2) Yuanta Financial Holdings is the sole shareholder of the company. The only major shareholder with control over the company is Yuanta Financial Holdings.</p> <p>(3)</p> <p>a. The company followed the Yuanta Financial Holdings has established a "Risk Management Department" being responsible for supervising and implementing risk management measures. Each subsidiary has an independent risk management unit in place, depending on their respective sizes and risk attributes, to monitor the various risks involved.</p> <p>b. The company has complied with Articles 44 and 45 of the Financial Holding Company Act, regarding credit and non-credit transactions with stakeholders. In order to ensure proper financial dealings with affiliates, while preventing inappropriate channelling of corporate interests and non-arms length transactions, asset disposals, or loans etc with related parties, the company has established a set of policies to govern financial dealings among affiliates and non-credit authorizations to stakeholders as means of control.</p>	None.
<p>2. Composition and duties of the board of directors</p> <p>(1) Commissioning independent directors</p> <p>(2) Regular evaluation of the independence of CPAs</p>	<p>(1) The company has five directors. No independent directors have yet been placed. All perform their duties in accordance with the Company Act.</p> <p>(2) An evaluation of the independence of CPAs is submitted to the Board of Directors each year which approves their appointment.</p>	<p>No independent directors</p> <p>None.</p>
<p>3. Communication channels with interested parties</p>	A database of interested parties has been established and a service mailbox is established on the company website. The communication channels are good.	None.
<p>4. Information disclosure</p> <p>(1) Company website disclosing information on the company's finances, business and corporate governance status</p> <p>(2) Other forms of information disclosure (such as English Website, appointment of specific personnel to collect and disclose information, establishing a spokesperson system, posting investor conference proceedings on the company website.)</p>	<p>(1) On the home page of the company's website, the "About Yuanta Securities Finance " section provide financial information; the "Corporate Governance" section discloses information related to the operations of corporate governance at the company; the home page of the company's website, the "Our Business" and "Business-related regulations" section provide business information.</p> <p>(2) The company has appointed a spokesperson and an acting spokesperson. Information such as monthly revenue is posted on the Market Observation Post System and annual reports and financial reports are made available on the company's website.</p>	None.
<p>5. Establishment and operation of functional committees such as a nomination or remuneration committees</p>	No functional committees such as audit, nomination or remuneration committees have been formed.	No functional committees such as audit, nomination or remuneration committees have been formed.
<p>6.. Please state the company's corporate governance and any non-compliance with "Corporate Governance Best-Practice Principle for Financial Holding Companies" and the reasons for non-compliance: The company has established corporate governance best practice principles in accordance with regulations. There is no significant non-compliance with corporate governance best practice principles during their practice.</p>		

<p>7. Other important information enabling better understanding of the company's corporate governance (such as employee rights and interests, employee care, investor relations, stakeholders' rights and interests, continuing education of directors, implementation of risk management policies and risk measurement criteria, implementation of customer policy, and purchase of liability insurance by the company for directors and supervisors):</p> <p>(1) Employee rights and interests:</p> <p>a. The company's human resources management mechanisms all comply with labor laws and regulations, and strive to realize employees' potential, enhance employees' on-the-job competitiveness and market value, and create a win-win situation for labor and management by safeguarding employees' legitimate rights and interests and encouraging a positive attitude toward corporate sustainability.</p> <p>b. Annual employee bonuses are reviewed and apportioned by the board of directors on the basis of the relative proportions specified in the articles of incorporation, and are distributed after approval by the shareholders meeting, allowing employees to share in the company's performance.</p> <p>(2) Employee care:</p> <p>This company cares about the physical and mental health and balance of its employees; it encourages employees to cultivate varied interests, and invests in employees through education and training, group insurance, employee shareholding trusts, and health check-ups, realizing care of employees and providing an outstanding working environment.</p> <p>(3) Investor relations and stakeholders interests:</p> <p>In its "Corporate Governance Best-Practice Principles," the company has defined the contents of investor relations and stakeholders' interests. These principles are implemented in day to day business and focus on the following aspects:</p> <p>a. The company maintains open channels of communication with investors, and respects and protects their legal rights.</p> <p>b. Taking advantage of the convenience of the Internet, the company has established a website, which carries information on financial affairs and corporate governance for reference by shareholders and stakeholders.</p> <p>(4) Continuing education of directors' and supervisors' : See page 35.</p> <p>(5) Implementation of risk management policy and risk measurement criteria:</p> <p>The company followed the Yuanta Financial Holdings, promote an appropriate risk management-oriented business model, achieve operational targets and increase shareholder value. The company has also set up risk management mechanisms for its subsidiaries based on their operational scale and risk level; within the management guidelines for various areas of business, it sets various quotas and limits to monitor risk situations. Risk reports and significant risk issues are periodically submitted to the top management in order to effectively control and manage risk.</p> <p>(6) Implementation of customer policy:</p> <p>The company followed the Yuanta Financial Holdings has established "protects customer privacy based on Confidentiality Measures on Customer Information for Yuanta Financial Holdings and Its Subsidiaries", The company has established " Personal Data Protection Policy " and "Personal Data Management Rules ". The company uses customer information in accordance with the forgoing measures and within the scope of the law so as to fulfill its obligations in maintaining the confidentiality of customer information and protect customer privacy.</p> <p>(7) Purchase of liability insurance by the company for directors and supervisors:</p> <p>Yuanta Financial Holding has purchased liability insurance for all directors and supervisors.</p> <p>(8) Donations to political parties, interested parties, and non-profit organizations:</p> <p>a.Handled in accordance with the Company's guidelines governing public donations. Public donations mean those donations which comply with the following laws and regulations:</p> <p>(a)Donations to political parties, political groups and political candidates in accordance with Political Donations Act.</p> <p>(b)Donations to the public welfare groups and syndicates defined in the General Provisions of the Civil Code, or any other educational, cultural, public welfare or charity agencies or groups which are registered with the competent authorities or incorporated validly in accordance with the other relevant laws and regulations.</p> <p>b.Where the donated subject is a related party, the donations shall be reported to the board of directors for resolution, regardless of the amount of the donations.</p>	<p>8. If the company has a corporate governance self-evaluation or has authorized any professional organization to conduct</p> <p>Such : None</p>
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D. Establishment, Responsibility and Operation Status of Remuneration Committee:

The Company has not yet established Remuneration Committee.

E. Implementation of social responsibility:

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
<p>1. Exercising Corporate Governance</p> <p>(1)The company declares its corporate social responsibility policy and examines the results of the implementation.</p> <p>(2)The company establishes exclusively (or concurrently) dedicated units to be in charge of proposing and enforcing the corporate social responsibility policies.</p> <p>(3)The company organizes regular training on business ethics and promotion of matters prescribed in the preceding Article for directors, supervisors and employees, and should incorporate the foregoing into its employee performance appraisal system to establish a clear and effective reward and discipline system.</p>	<p>(1) The company followed The Yuanta Financial Holdings approved "Corporate Social Responsibility Best Practice Principles" and approved "Corporate Social Responsibility Policy and Management Rules" of the actual operational situation.</p> <p>(2) None</p> <p>(3) The company held regular corporate ethics courses as means of promoting regulatory awareness. Employees were tested to ensure their understand towards the relevant regulations, thereby ensuring compliance and in various business activities.Should an employee's conduct violate these norms, the violation will be reported and punished depending on the severity of the circumstances and be incorporated into the performance appraisal system.</p>	<p>None.</p>
<p>2. Fostering a Sustainable Environment</p> <p>(1)The company endeavors to utilize all resources more efficiently and uses renewable materials which have a low impact on the environment.</p> <p>(2)The company establishes proper environmental management systems based on the characteristics of their industries.</p> <p>(3)The company establishes dedicated units or assigns dedicated personnel for environment management to maintain the environment.</p> <p>(4)The company monitors the impact of climate change on its operations and should establish company strategies for energy conservation and carbon and greenhouse gas reduction.</p>	<p>(1) The company's measures to raise resource utilization efficiency and its use of renewable materials are explained below:</p> <p>a. We recycle and reuse energy-intensive articles. This includes advocating and promoting the recycling and reuse of paper products, the use of recycled paper and resource recycling as well as execution status reporting.</p> <p>b. We properly dispose of waste. This includes advocating and promoting waste sorting and reduction, waste water treatment and reporting on the outcome.</p> <p>c. We use low energy, green energy office supplies and machines. At the time of procurement whether the above mentioned type of products are available to raise usage of such products.</p> <p>(2)Regarding the establishment of environment management systems and dedicated units for environment management (including water conservation, energy conservation, carbon and greenhouse gas reduction, we have taken the following measures:</p> <p>a. We follow the regulations for air conditioning temperatures in office buildings.</p> <p>b. The corporate headquarter building already complies with a number of green building regulations</p> <p>c. In order to realize water conservation, energy conservation, carbon and greenhouse gas reduction, we regularly</p>	<p>None</p>

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	<p>report the outcome of conservation measures for water, electricity and other items of energy consumption.</p> <p>d. Smoking is completely prohibited inside our offices. Smokers must use designated outdoor places. In order to meet regulations we regularly carry out disinfection, rodent and insect control.</p> <p>(3)The headquarter building's management committee functions as a dedicated environmental management unit to maintain the environment.</p>	
<p>3. Preserving Public Welfare</p> <p>(1) The company's compliance with labor regulations and respect toward the basic labor human right principles recognized internationally, protection of employees' legal entitlements and adoption of employment policy free from discrimination, and the establishment of proper management and procedures.</p> <p>(2)The company provides safe and healthy work environments for its employees, and organizes training on safety and health for its employees on a regular basis.</p>	<p>(1) Based on labor laws and regulations we have established work rules and related personnel management guidelines to prohibit discrimination toward job seekers or employees in terms of race, belief, religion, political party, native place, place of birth, gender, sex orientation, age and marriage, in order to establish an employment equality environment and protect employee rights. Meanwhile, we also called a labor and employer meeting periodically to facilitate communication between both parties and harmonize the relationship between laborers and employer.</p> <p>(2)Regarding the provision of safe and healthy work environments for our employees, and the organization of regular training on safety and health, we have taken the following measures:</p> <ul style="list-style-type: none"> a. Strict entrance guard and security check measures to fully protect the safety of our employees at work and in everyday life. b. Regular safety inspections of drinking water, carbon dioxide and illumination. c. Regular public safety reports and inspections. d. Regular disinfection and sanitation of the environment. e. Confirming that office surveillance systems at all business locations function normally. f. Delivering a smoke-free work environment, providing a comfortable, healthy and fresh workspace. g. Regular occupational safety and firefighting trainings and drills as required by law. <p>Moreover, based on Article 16 of the "Regulations for Labor Safety and Health Education and Training" by the Council of Labor Affairs, Executive Yuan, the company has established the following regulation: "The employer shall have new recruits receive necessary safety and health education and trainings applicable to their new posts." In order to protect the health and safety of all workers, we hired a business supervisor holding a certificate of labor safety to hold "educational trainings for new recruits on occupational health and safety" in</p>	None

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
<p>(3) Establishment of the mechanism for periodic communication with employees, and notification to employees of the circumstances which might materially affect the operation in a reasonable manner</p> <p>(4) The company establishes and discloses policies on consumer rights and interests and provides a clear and effective procedure for accepting consumer complaints.</p> <p>(5) The company cooperates with its suppliers to jointly foster a stronger sense of corporate social responsibility.</p>	<p>fiscal year 2012. The educational trainings cover the following topics: An outline of laws and regulations relating to occupational health and safety, occupational health and safety concepts as well as safety and health work rules, emergency response management, basic knowledge and drills about firefighting and emergency rescue, as well as health and safety knowhow related to work operations.</p> <p>(3)</p> <p>a. The company calls a labor and employer meeting periodically to establish a communication platform between laborers and employer to upgrade employees' participation and identification in the company's policies so as to form a positive interactive model and to create a win-win situation.</p> <p>b. The various regulations and systems and benefit information for employees are posted in the intranet to help employees understand their own interests and rights. Meanwhile, a dedicated unit posts important daily news of the Financial Holding on the intranet for employees' easy access so as to understand updated industrial developments and the company's important messages.</p> <p>c. Material changes in the Company's operation will also be published via email from time to time, so that employees will have access to timely.</p> <p>(4)</p> <p>a. In order to fulfill our responsibility to keep customer information confidential the corporate has set up the "Yuanta Financial Holding Co. Ltd. and Subsidiaries Customer Information Confidentiality Measures", "Statement of Customers' Privacy Protection" and posted their content on the corporate website. The Company has set up the Personal Data Protection Policy and Personal Data Management Rules to follow.</p> <p>b. The company uses the following avenues and procedures to handle customer complaints:</p> <p>(i) TEL: 02-2173-6896</p> <p>(ii) E-mail: auditcomm.sf@yuanta.com</p> <p>(iii) If a customer complaint is received, the relevant unit will be immediately notified to handle the complaint. The Company will take Moderately measure respond to the customer.</p> <p>(5) As for cooperation with suppliers to jointly foster a stronger sense of corporate social responsibility, we actively select and purchase equipment with energy labels, low-energy and green energy office supplies, office machines, IT equipment, illumination equipment and related devices. Office machines, for instance, that are on</p>	

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
(6)The company, through commercial activities, non-cash property endowments, volunteer service or other free professional services, participates in community development and charities events.	<p>stand-by or not used automatically switch to power saving mode. Traditional incandescent light bulbs are replaced with energy-saving light bulbs. The central air conditioning system at company headquarters uses the more environment friendly refrigerant to prevent destruction of the ozone layer.</p> <p>(6) Grateful for the long-term support to "Yuanta Foundation" and "Polaris Research Institute" as means of active involvement in culture, education, charity, and cultural activities. Embrace mission of improving the health and raising cultural and living standards. Fulfill the social responsibility role of the financial holding group. In terms of education, we emphasized on nurturing financial talents, organizing academic workshops and seminars etc; with respect to charity, we focused on providing education assistance to the disadvantaged, promoting healthcare, and sponsoring cultural activities for a better society; in terms of culture, we have extended our supports to local artists and exhibitions.</p>	
<p>4. Enhancing Information Disclosure</p> <p>(1)The measures of disclosing relevant and reliable information relating to their corporate social responsibility.</p> <p>(2)The company produces corporate social responsibility reports disclosing the status of their implementation of the corporate social responsibility policy.</p>	<p>(1) Relevant information is posted on the corporate website.</p> <p>(2) The Yuanta Financial Holdings 2011 corporate social responsibility (CSR) report mainly described how Yuanta Group had contributed to the economy, the environment, and the society between January 1 and December 31, 2011. This report was drafted in reference to the guidelines and structures provided by The Global Reporting Initiative (GRI) Version G3; it was structured to contain 6 chapters: Company Overview, Corporate Governance, Customers Relationship , Care to Employees, Environmental Protection, and Social Involvement, with a special report on and Yuanta 50th celebration, Thanksgiving by Blood Donation. This report is made accessible to all stakeholders on the company's website and intranet.</p>	None
5. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation :None		
6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices (e.g., systems and measures that the company has adopted with respect to environmental protection, community participation, contribution to society, service to society, social and public interests, consumer rights and interests, human rights, safety and health, other corporate social responsibilities and activities, and the status of implementation.) : For further details please view our corporate website.		
7. If the products or corporate social responsibility reports have received assurance from external institutions, they should state so below : None		

F. Fulfillment of ethical management

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
<p>1. Enactment of ethical management policy and program</p> <p>(1) The company expressly states the ethical policy in its Articles of incorporation and public documents, and its fulfillment by the board of directors and the management.</p> <p>(2)The policy against unethical conduct defined by the company, and the SOP, guidelines and training defined in the policy.</p> <p>(3)Measures against bribery and illegal political donation with respect to operating activities with higher risk of unethical conduct defined by the Company.</p>	<p>(1) The company followed The Yuanta Financial Holdings approved "Ethical Management Principles" and "Procedures for Ethical Management and Guidelines for Conduct". The Yuanta Financial Holdings has assembled a dedicated team to supervise this matter and report regularly to the board of directors. Based on clean, transparent and responsible management, the company will continue to promote a policy based on integrity. We will establish good corporate governance and risk management mechanisms to create a sustainable business environment.</p> <p>(2)</p> <p>a. A "YFH Ethical Management Principles" , outlines a list of dishonest behaviors and conflicting interests, and prohibit any bribery, illegitimate political contributions, and improper donations, sponsorships, gifts, treatments, or benefits. Regular trainings are organized, and proper reporting systems and disciplinary policies have also been created.</p> <p>b. The Company organizes the "Anti-bribery and Anti-corruption and Enterprise Ethical Education" training program on a yearly basis in accordance with financial laws and regulations, "YFH Ethical Management Principles" and " YFH Procedures for Ethical Management and Guidelines for Conduct". All employees have to take part in the program and pass the test, to ensure that employees have correct knowledge and basic judgment of relevant laws and ethical conduct, and to fulfill compliance with laws and corporate social responsibility for ethical business.</p> <p>(3)The company has already undertaken measures against bribery and illegal political donation with respect to operating activities with higher risk of unethical conduct . All procurement projects of the company have to be conducted in accordance with the " YFH Procedures for Ethical Management and Guidelines for Conduct".</p>	<p>None.</p>
<p>2. Implementation of ethical business</p> <p>(1)The company's business activities shall avoid any counterparts who have unethical business record, and shall expressly define the ethical business clauses in the business contract.</p>	<p>(1) The company followed The Yuanta Financial Holdings' has already drawn up the "Checklist for Singing of Procurement Contracts ", to help the assessment when negotiating concluding contract with external procurement supplier involving the buyout of ownership of products. Further, when concluding the procurement contract, the company</p>	<p>None</p>

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
<p>(2)The Company's establishment of a dedicated unit (concurrently engaged in) to promote enterprise ethical business, and supervision by the board of directors.</p> <p>(3)Policy against conflict of interest defined by the Company and operation of adequate channel thereof.</p> <p>(4)Operation of a valid accounting system and internal control system established by the Company to fulfill ethical business, and audit by the internal auditors.</p>	<p>takes into consideration the supplier's compliance with the ethical business clause and Article 20 of the YFH Procedures for Ethical Management and Guidelines for Conduct.</p> <p>(2)</p> <p>a. The company followed The Yuanta Financial Holdings designate to form the unit dedicated to amending, of reported matters with respect to the YFH Procedures for Ethical. Periodic reports are submitted to the board of directors.</p> <p>b. The company has submitted the report on the overview of corporate governance and ethical business 2012 to 28th meeting of the 11th board of directors on Feb. 27, 2013.</p> <p>(3)</p> <p>a. The company followed "YFH Ethical Management Principles" , " YFH Procedures for Ethical Management and Guidelines for Conduct" and "Yuanta Securities Finance of Ethical Conduct" ("Code of Ethical Conduct") that where the company's director and manager , or their spouses, direct blood relatives, relatives within the third degree of kinship and the entities in which they are hired participate in the company's business transactions, due to their position and powers, the director and manager shall state the same voluntarily and deal with or avoid the situation in a timely manner. The company has established a well-founded management mechanism for execution in the internal and external business activities, in order to upgrade the effect of the Company's ethical business.</p> <p>b. The avoidance of conflict of interest, disclosure of business secrets, non-inside trading and non-disclosure agreement with respect to the Company's staff (including directors and supervisors) shall comply with relevant requirements.</p> <p>(4) Under the "YFH Ethical Management Principles", the Company has linked the other relevant internal control regulations intensively to help various departments comply with the internal control and SOPs, and to prevent any staff's mis conduct, e.g. Code of Ethical Conduct, Board of Directors Procedure Rules, and Guidelines Governing Donations to the Public. Meanwhile. When any of the Company's staff is involved in unethical conduct, the Audit Dept. will be delegated to conduct audit, and the dedicated unit shall report the unethical conduct, response action and follow-up correction to the board of directors. Where any others engage in unethical conduct toward the Company and involve illegal activities, the Audit Dept. will also report the audit</p>	

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and reasons
	report to Legal Dept., and Legal Dept. will help the Company notify the judicial and prosecuting authorities.	
3. The complaint channels established by the Company, and disciplines and complaint system for violation of the ethical business rules.	<p>(1)The Company set up the "Suggestion and Sharing" zone in its website is equipped with an email box to accept questions or suggestions from external or internal personnel.</p> <p>(2)Upon awareness or receipt of any complaint against unethical conduct of the Company's staff, the Company will render discipline pursuant to relevant laws or the Company's regulations after verifying the same, and claim damages through legal action, if necessary, to maintain the Company's goodwill and interest. The disciplined employee who disagrees with the discipline may apply for reconsideration under the complaint system. Upon verification of the case, the title and name of the employee who violates the code of ethical conduct, date of occurrence, contents of violation and treatment thereof will be disclosed at the Company's website, and the relevant unit will be delegated to review the internal control system and SOP and propose the corrective action to prevent the same from occurring again and fulfill the management philosophy of ethical business.</p>	None
<p>4. Enhancing Information Disclosure</p> <p>(1)The Company set up a website to disclose information about ethical business.</p> <p>(2)Other manners in which the Company discloses information (e.g. set-up of website, personnel dedicated to collecting the Company's information, and disclosure of the same on the Company's website, etc.)</p>	<p>(1) On the home page of The Yunta Financial Holdings website, the "Corporate Governance" section "Ethical Management Principles" and "Guideline for Conduct". The Company's website, the "Corporate Governance" section "discloses the "Code of Ethical Conduct".</p> <p>(2)The Company has set up the dedicated personnel are assigned to collect and disclose the Company's information and post the same on the Company's website.</p>	None
5. If the Company has established ethical business principles based on "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation: None.		
<p>6. Other information material to the understanding of ethical business operation (e.g. the Company's determination and policy to propagate the ethical business to trading counterparts and invitation of the trading counterparts to take part in the education training programs, discussion and amendment to the ethical business best practice principles defined by the Company):</p> <p>When procuring products and before signing the contract, the Company will ask the supplier to issue a written undertaking for ethical business and will search whether the trading counterpart has any unethical business record, such as bribery or illegal political donations, and include the ethical business clauses and relevant matters into the contract.</p>		

- G. Methods for inquiring about the Company's Corporate Governance Best Practice Principles and related rules and regulations: Posted on the Company's website.
- H. Other important information that will facilitate understanding of Company corporate governance and working: None
- I. Implementation of internal controls:
- (1) Declaration on Internal Control Statement: See page 34.
 - (2) Appointment of CPAs to review internal control system: None

Schedule : Continuing education of directors' and supervisors'

Data baseline date: 12/31/2012

Title	Name	Course duration		Organizing agency	Course name	Course Hours
		From	To			
Chairman	Chuang Yu-De	4/19/2012	4/19/2012	Taiwan Securities Association	Response to Risk of Corporate Governance and Fair Trade Act	3
Chairman	Chuang Yu-De	7/04/2012	7/04/2012	Taiwan Securities Association	Importance of World - Changing Corporate Social Responsibility for Corporate Governance	3
Director	Lee Ya-Pin	4/19/2012	4/19/2012	Taiwan Securities Association	Response to Risk of Corporate Governance and Fair Trade Act	3
Supervisor	Chang Tsai-Yu	3/07/2012	3/07/2012	Taiwan Securities Association	Orientation Workshop for High-Rank Management of Securities Business	7.5
Supervisor	Chang Tsai-Yu	4/19/2012	4/19/2012	Taiwan Securities Association	Response to Risk of Corporate Governance and Fair Trade Act	3
Supervisor	Liao Yueh-Jung	6/18/2012	6/21/2012	Accounting Research and Development Foundation of the R.O.C.	Taiwan Stock Exchange Corporation Chief Accounting Officer's Ongoing Education for Securities Issuers	12
Director	Yu Yao-Ting	4/19/2012	4/19/2012	Taiwan Securities Association	Response to Risk of Corporate Governance and Fair Trade Act	3
Director	Yu Yao-Ting	7/04/2012	7/04/2012	Taiwan Securities Association	Importance of World - Changing Corporate Social Responsibility for Corporate Governance	3
Director	Yu Kuang-hua	10/26/2012	10/26/2012	Taiwan Securities Association	Compliance with Securities Laws and Regulations Related to Business Merger and Acquisition	3
Director	Hong Rong-Ting	2/09/2012	2/10/2012	Securities and Futures Institute	Directors and supervisors (including the independent supervisors) practice seminars, conference	12
Director	Hong Rong-Ting	7/04/2012	7/04/2012	Taiwan Securities Association	Importance of World - Changing Corporate Social Responsibility for Corporate Governance	3

Yuanta Securities Finance Co., Ltd
Declaration on Internal Control System

Date: February 27, 2013

The declarations of the self-inspection result of the company's internal control system between Jan. 1, 2012, to Dec. 31, 2012, are listed below:

1. The internal control system establishment, implementation and maintenance are the duty of the board and managers. The system has been established to ensure the achievement of operating efficiency (including profit, performance and safeguarding asset security), reliability of financial reports and the observance of relevant regulations, etc. objectives.
2. The internal control system has its inherent limitations. No matter how well designed it is, the effective internal control system is only able to provide reasonable guarantees for the three above mentioned objectives; moreover, due to the changes of environment and situations, the effectiveness of the internal control system may change as well. The company's internal control system has a self-monitoring mechanism, therefore, when the mistakes are identified, the company will immediately take corrective actions.
3. The company uses the *Securities and Futures Market Internal Control System Guidelines* (SFMICS Guidelines) to regulate the judgmental items for the effectiveness of the internal control system. The judgmental items that *SFMICS Guidelines* use have divided the internal control system into five elements according to the management control process, which are: 1. Control environment, 2. Risk assessment, 3. Control operation, 4. Information and communication, and 5. Supervision. Each element also includes various items. (Please refer to the regulation of *SFMICS Guidelines*.)
4. The company has used the above mentioned internal control system judgmental items to inspect the effectiveness of the internal control system design and implementation.
5. Based on the inspection results, the design and implementation of the company's internal control system is effective. (The internal control system includes the monitoring and management of the subsidiaries.)
6. This declaration will be included in the annual report and the prospectus for perusal by the public. Any false statement or concealment in the said documents will be a violation against *Articles 20, 32, 171, and 174 of the Securities Exchange Act*.
7. This declaration was approved by the board on February 27, 2013; none of the 5 attending directors had negative opinions.

Yuanta Securities Finance Co., Ltd

Chairman: Chuang Yu-De

President: Lee Ya-Pin

J. Legal penalties imposed by regulatory authorities on the company or its employees for violations of internal control regulations, and major flaws and revisions of said regulations in the past year and as of publication of this annual report: None

K. Major resolutions of the shareholders' meetings and board meetings in the most recent fiscal year or in the current fiscal year before the date of publication of the annual report:

(After the company became a 100% shareholding subsidiary of Yuanta Financial Holding Co., Ltd on Feb. 04, 2002, the board of directors exercises the powers of the shareholders' meeting).

1. The 21st Meeting of the 11th Board of Directors on February 29, 2012.
 - (1) Approved the Company's 2011 business report.
 - (2) Approved the appointment of PricewaterhouseCoopers Taiwan CPA Lin Sk and Kuo Ellen to audit the 2011 financial statements and CPA Lin Sk for 2011 filing of the business income tax.
 - (3) Approved the Company's 2011 financial report.
 - (4) Approved the Company's 2011 earnings distribution plan.
2. The 22nd Meeting of the 11th Board of Directors on April 24, 2012.
 - (1) Approved the Company's 2011 business report and financial report.
 - (2) Approved the Company's 2011 earnings distribution plan.
 - (3) Approved the Company's financial report prepared according to IFRSs on January 1, 2012.
 - (4) Approved partial amendments to the Company's "Regulations Governing the Acquisition and Disposal of Assets".
3. The 23rd Meeting of the 11th Board of Directors on June 26, 2012.
 - (1) Approved the amendments of the earning distribution item and employee bonus provision percentage range in the articles of incorporation.
 - (2) Approved repeal the Company's "Shareholders Meeting Rules".
 - (3) Approved repeal the Company's "Audit Committee Organization Rules " and "Investment Operations Performance Bonus Rules".
4. The 24th Meeting of the 11th Board of Directors on July 26, 2012.

For the purpose of transferring the margin trading and short sale initially handled by Ding Fu Securities on behalf of Yuanta Securities Finance would be transferred to Yuanta Securities, the Company intends to sign the "Business Operation Rights Transfer Agreement" with the Yuanta Securities.
5. The 25th Meeting of the 11th Board of Directors on August 28, 2012.
 - (1) Approved the Company's balance sheet and consolidated income statement for Q1 of 2012 prepared according to IFRSs.

- (2) Approved the first six months of 2012's financial report.
- 6. The 26th Meeting of the 11th Board of Directors on October 23, 2012.
 - (1) Approved the motion for drafting of the Company's "Personal Data Protection Policy".
 - (2) Approved the Company's balance sheet and consolidated income statement for the first six months of 2012 prepared according to IFRSs.
- 7. The 27th Meeting of the 11th Board of Directors on December 25, 2012.
 - (1) Approved the motion for drafting of the Company's "Personal Data Management Rules"
 - (2) Approved the Company's balance sheet and consolidated income statement for Q3 of 2012 prepared according to IFRSs.
 - (3) Approved repeal the Company's "Affairs Management Rules".
- L. Recorded or written statements made by any director or supervisor which specified dissent to important resolutions passed by the board of directors in recent years and up to the date of this annual report's publication: None
- M. Resignation of any individual associated with the financial statements in recent years as of publication of this annual report: None

4. Information on Service Fees Charged by the Certified Public Accountants (CPAs):

Range of Service fees by CPAs

Name of accounting firm	Name of CPAs		Audit period	Remark
PricewaterhouseCoopers Taiwan	Sk Lin	Ellen Kuo	Jan. 01,2012-Dec.01,2012	

Note: if changes of accounting firms or CPAs occurred in the current fiscal year, separate itemized listing and reasons are required.

Units : thousand NT\$

Fees Item		Audit fees	Non-Audit expenses	Total
Range				
1	Less than 2000	✓	-	✓
2	2,000 (inclusive) ~4,000	-	-	-
3	4,000 (inclusive) ~6,000	-	-	-
4	6,000 (inclusive) ~8,000	-	-	-
5	8,000 (inclusive) ~10,000	-	-	-
6	10,000 (inclusive) and above	-	-	-

- A. Instances where the ratio of non-audit related expenses made up more than one quarter of audit fees: None
- B. Instances where a change in the accounting firm results in reduction of the auditing fees in comparison to the year prior to the change: None
- C. Instances where auditing fees decreased more than 15% over the previous year: None

5. Information on the replacement of CPAs:

A. Information relating to the former CPA

Date of reappointment	February 29, 2012		
Reason for reappointment	Due to the accounting firm's Internal rotation		
Was the termination of audit services initiated by the principal or by the CPA	Counterparty		
	Situation	CPA Ming Ling Hsueh	Principal
	Service terminated by	n/a	
	Service no longer accepted (continued) by	n/a	
Reasons for issuing opinions other than unqualified opinions in the recent 2 years	None		
Disagreements with the company	Yes		Accounting policy or practice
			Financial statement disclosure
			Audit coverage or procedures
			Others
	None	✓	
	Description		
Other disclosures (Disclosures deemed necessary under Section 10.5.1.4 of The Guidelines)	None		

B. Information relating to the succeeding CPA

Name of firm	PricewaterhouseCoopers Taiwan
Name of accountant	Sk Lin , Ellen Kuo
Date of reappointment	February 29, 2012
Inquiries and replies relating to the accounting practices or accounting principles of certain transactions, or any audit opinions the auditors were likely to issue on the financial reports prior to reappointment.	None
Written disagreements from the succeeding auditor against the opinions made by the former CPA	None

Note : Because PricewaterhouseCoopers Taiwan CPA adjusted internal rotation, the CPAs assigned to audit the Company's 2012 financial statements were changed from CPA Sk Lin and Huang Jing-Tze to CPA Sk Lin and Ellen Kuo.

C. Former CPA's reply to "Criteria Governing Information to be published in Annual Reports of Public Companies" Article 10 5-1, 5-2-3: None

6. Chairman, President, or Managers in Charge of Finance or Accounting Affairs, Who Were Employed by the CPA Firm or its Affiliates over the Past One Year:
None.

7. Equity Change, Share Transfers and Pledges Made by Directors, Supervisor(s), Manager(s), or Major Shareholder(s) in Recent Years up to the Publication of This Annual Report:

A. Change in equity

Unit: Shares

Title	Name	2012		Ending Jan. 31, 2013	
		Increase (decrease) in number of shares held	Increase (decrease) in number of shares pledged	Increase (decrease) in number of shares held	Increase (decrease) in number of shares pledged
Chairman	Yuanta Financial Holdings Representative: Chuang Yu-De				
Director	Yuanta Financial Holdings Representative: Lee Ya-Pin				
Director	Yuanta Financial Holdings Representative: Yu Yao-ting				
Director	Yuanta Financial Holdings Representative: Yu Kuang-hua	-	-	-	-
Director	Yuanta Financial Holdings Representative: Hong Rong-Ting				
Supervisor	Yuanta Financial Holdings Representative: Chang Tsai-Yu				
Supervisor	Yuanta Financial Holdings Representative: Liao Yueh-Jung				
Major Shareholder	Yuanta Financial Holdings				
President	Lee Ya-Pin	-	-	-	-
Vice-President	Hong Rong-Ting				
Senior assistant vice President	Hu Yi-Heng				
Assistant Vice President	Chen Ying-Ling				
Assistant Vice President and Secretary of the Board	Lin Tseng-Chun				
Senior assistant vice President	Liu Ying-Shi	-	-	-	-
Manager	Chen Chi-Ping				
Manager	Huang Shi- Chun				
Assistant Manager	Cheng Shu-Chin				

Note: Yuanta Financial Holdings Co., Ltd holds all shares of the company.

B. Information on transfer of shares: N/A

C. Information on equity pledged: N/A

8. Information on the top 10 shareholders being related parties :

Baseline date: Jan. 31, 2013

Name	Shareholding Under Own Name		Spouse and Minor Shareholding		Shares Held Under Other's Names		Disclosure of information on related parties, or spousal relationship or relations within second degree of kinship among top ten shareholders, including their names and relationship		Remark
	Shares	%	Shares	%	Shares	%	Name	Relation	
Yuanta Financial Holdings Representative: Ching Chang Yen	600,000,000	100 %	—	—	—	—	—	—	—

Note: Yuanta Financial Holdings Co., Ltd holds all shares of the company.

9. Ratio of Comprehensive Shareholdings to the Same Business Entity That is Directly or Indirectly Controlled by Directors, Supervisors, or Management:

Jan. 31, 2013 Unit: Shares; %

Business entity invested (Note)	Company's investment		Investment directly or indirectly controlled by director(s), supervisor(s) or manager(s)		Total investment	
	Shares	%	Shares	%	Shares	%
TDCC	57,622,658	17.96	—	—	57,622,658	17.96
TAIFEX	13,929,346	5.00	—	—	13,929,346	5.00

Note: Long-term investment of the company

IV. Financing Status

1. Corporate Capital and shareholdings

A. Sources of capital

Jan. 31, 2013

Date	Issue Price (NT\$)	Authorized capital		Paid-in capital		Remarks		
		Issue Price (thousand shares)	Amount (thousand NT\$)	Issue Price (thousand shares)	Amount (thousand NT\$)	Source of capital	Capital increase by assets other than cash	Other
July, 2001	10	1,470,000	14,700,000	1,470,000	14,700,000	Capital increase via capital reserve \$700,000,000	None	Note 1
July, 2002	10	1,220,000	12,200,000	1,220,000	12,200,000	Capital reduction \$2,500,000,000	None	Note 2
April, 2005	10	800,000	8,000,000	800,000	8,000,000	Capital reduction \$4,200,000,000	None	Note 3
Nov. 2007	10	900,000	9,000,000	900,000	9,000,000	Capital increase (private placement) \$1,000,000,000	None	Note 4
Aug. 2008	10	1,500,000	15,000,000	1,500,000	15,000,000	Capital increase (private placement) \$6,000,000,000	None	Note 5
May, 2009	10	1,650,000	16,500,000	1,650,000	16,500,000	Capital increase via capital reserve \$1,500,000,000	None	Note 6
Nov. 2010	10	2,250,000	22,500,000	2,250,000	22,500,000	Capital increase via statutory surplus and capital reserve \$6,000,000,000	None	Note 7
Jan. 2011	10	2,250,000	22,500,000	600,000	6,000,000	Capital reduction \$16,500,000,000	None	Note 8
June, 2011	10	2,250,000	22,500,000	980,000	9,800,000	Capital increase via statutory surplus and capital reserve \$3,800,000,000	None	Note 9
Nov. 2011	10	2,250,000	22,500,000	600,000	6,000,000	Capital reduction \$3,800,000,000	None	Note 10

Note 1: Approved on July 13, 2001 by Securities and Futures Commission letter Tai-Tsai-Cheng- (4)-Tzu no. 145372.

Note 2: Approved on July 19, 2002 by Securities and Futures Commission letter Tai-Tsai-Cheng-4-Tzu No. 0910140309.

Note 3: Approved on April 8, 2005 by Financial Supervisory Commission letter Jin-Guan-Cheng-4-Tzu No. 0940111322.

Note 4: Approved on October 19, 2007 by Financial Supervisory Commission letter Jin-Guan-Yin-6-Tzu No. 09600441890.

Note 5: Approved on July 29, 2008 by Financial Supervisory Commission letter Jin-Guan-Yin-6-Tzu No. 09700260910.

Note 6: Approved on April 01, 2009 by Financial Supervisory Commission letter Jin-Guan-Cheng-4-Tzu No. 0980012602.

Note 7: Approved on November 05, 2010 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No. 0990060491.

Note 8: Approved on January 10, 2011 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No. 0990073675.

Note 9: Approved on May 11, 2011 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No. 1000019441.

Note 10: Approved on October 12, 2011 by Financial Supervisory Commission letter Jin-Guan-Tor-Tzu No.1000048613.

Data as of: Jan. 31, 2013 / Unit: shares

Category of shares	Authorized capital			Remarks
	Outstanding shares (note)	Unissued shares	Total	
Common shares	600,000,000	1,650,000,000	2,250,000,000	

Note: Unlisted company shares.

B. Shareholder structure

Jan. 31, 2013/ Unit: shares

Shareholders type Number	Governmental institutions	Financial institutions	Other institutions	Individuals	Foreign institutions and natural persons	Total
No. of shareholders	0	1	0	0	0	1
Shares held	0	600,000,000	0	0	0	600,000,000
Shareholding ratio	0	100%	0	0	0	100%

Note: Yuanta Financial Holdings Co., Ltd. holds all of the Company's shares

C. Distribution profile and shareholder ownership

(1) Common shares

Face value per share: 10 dollars

Jan. 31, 2013/ Unit: shares

Shareholding category	Number of shareholders	Shares held	Shareholding ratio (%)
1,000,001 and above	1	600,000,000	100%

Note: Yuanta Financial Holdings Co., Ltd. holds all of the Company's shares

(2) Preferred shares: None

D. Major shareholders

Baseline date: Jan. 31, 2013/ Unit: shares

Shares Major shareholders	Shares held	Shareholding ratio (%)
Yuanta Financial Holdings Co., Ltd.	600,000,000	100%

Note: Yuanta Financial Holdings Co., Ltd. holds all of the Company's shares

E. Market price per share, net value, earnings, dividends and related information for the past two years

Years		2011	2012	Year-Jan.31.2013 (Note 2)
Items				
Market price per share (Note1)	Highest	—	—	—
	Lowest	—	—	—
	Average	—	—	—
Net value per share	Before distribution (NT\$)	19.23	19.34	24.66
	After distribution (NT\$)	18.50	Note 3	Note 4
Earnings per share	Weighted average Number of shares	1,015,315,068	600,000,000	600,000,000
	Earnings per share (NT\$)	0.75	0.70	0.05
Dividends per share	Cash dividend (NT\$)(Note5)	0.73	0.63	Note 4
	Stock dividend	From retained earnings	—	—
		From Capital Reserve	—	—
	Outstanding dividend accumulated	—	—	—
Return analysis	Price / earnings (P/E) ratio (Note6)	—	—	—
	Price / dividend (P/D) ratio (Note7)	—	—	—
	Cash dividend yield (note 8)	—	—	—

Note 1: Due to the merger of Yuanta Securities Co., Ltd. into Yuanta Financial Holdings Co., Ltd., trading of the Company's shares ceased on January 23, 2002 and the Company was delisted on February 04, 2002.

Note 2: Year-January 31, 2013 data was self-compiled and are unaudited by CPAs.

Note 3: To be passed by the board of directors (acting as proxy for the AGM)

Note 4: The earnings for the fiscal Year 2013 have not yet been allocated.

Note 5: The cash dividend per share in the fiscal year of 2011 and 2012 was calculated based on the paid-in capital of total 600,000,000 shares.

Note 6: Price / earnings (P/E) ratio = Average market price over that year / Adjusted EPS

Note 7: Price / dividend (P/D) ratio = Average market price over that year / Cash dividend per share

Note 8: Cash dividend yield = Cash dividend per share / average closing price over that year

F. Dividend policy and implementation status

(1) Company dividend policy

The company has adopted a balanced dividend policy to uphold shareholder rights and achieve long-term business sustainability goals. The total proposed dividend by the board of directors in principle may be 80% to 100% of net earnings for the year following payment taxes, amendment of losses, allocation of legal reserve, director(s) and supervisor(s) remuneration and employee bonuses. The cash portion of the dividend shall make up 50% to 100% and stock portion of the dividend shall comprise 50% or less of the total dividend distributed.

Regarding the aforementioned principle, the company will decide the most appropriate policy for the distribution of stock dividends depending on actual profitability and capital conditions accordingly. The board will prepare a proposal for such distribution plan and submit it to the shareholders' meeting for approval and execution.

(2) Implementation status

Shareholders were allocated cash dividends NT\$0.63 per share.

G. Impact on company financial results and EPS due to the issuance of bonus shares as proposed in the shareholders' meeting:

None

H. Employee Bonuses and remuneration to director(s) and supervisor(s)

(1) The range of Employee bonuses and remuneration to director(s) and supervisor(s) as set forth in the Company's Articles of Incorporation :

Following the Company's Articles of Incorporation, if annual earnings surplus exists after tax payment, amendment of losses from previous years shall take place than allocation of 30% for legal reserve. Of the remaining amount, 0.01% - 5% shall be appropriated as bonuses to employees. The remaining amount is combined with undistributed earnings from previous years and a distribution proposal by the Board of Directors is submitted to the Shareholders Meeting for approval.

(2) The accounting treatment of the discrepancy for the current period, if any, between the actual distributed amount and the estimated figure (for estimating the amount of employee bonuses and director/supervisor compensation, and calculating the number of shares to be distributed as stock bonuses) :

The basis for estimating the amount of employee bonuses is deducted allocation of legal reserve from annual net income, and multiplied by percentage in accordance with the Articles of Incorporation and related regulations. The estimates of employee bonuses are recognized as current period's operating expenses. In case of the difference in employee bonuses between the resolution of shareholders' meeting and the estimation, the estimation difference will be regarded as the profit and loss for the next year.

(3) Employee Bonuses approved by the board of directors:

(a) Employees were allocated cash rewards totaling NT\$702,310 The Board meeting.

(b) Proposed stock bonus to employees and its percentage of total capital increase from earnings:
No stock bonus was allocated to employees.

(c) Earnings per share after proposed allocation of bonus to employees and remuneration to director(s) and supervisor(s): Aim for NT\$0.70 EPS after proposed allocation.

(4) Information regarding the allocation of earnings from the previous year for bonuses to employees and compensation to directors and supervisors:

There was no discrepancy between the employee bonuses and the amount allocated from the Company's 2011 earnings as passed by the board of directors (acting as proxy for the AGM) and the actual amount paid out. Cash bonuses paid to employees amounted to NT\$1,163,659.

I. Information on Company's share repurchase: None

2. Corporate bonds Issuance:

Type of corporate bonds issued	First issue of unsecured corporate bonds for 2007	
Date of issue	May 30, 2007	
Face value	NT\$ 1 million	
Place of issue and transaction		
Issue price	Fully issued as per par value	
Total amount	NT\$ 7.5 billion, in accordance with the different issuing condition, it is divided into type A bonds and type B bonds; the total amount of type A is NT\$2.5 billion and type B is NT\$ 5 billion.	
Interest rates	Type A: The face interest rate is 2.05%; simple interest will be calculated once a year from the date of issue. Type B: The face interest rate is 2.13%; simple interest will be calculated once a year from the date of issue.	
Duration	Type A: 3 year term, date of maturity: May 30, 2010 Type B: 5 year term, date of maturity: May 30, 2012	
Institution of guarantee	N/A	
Trustee	China Trust Commercial Bank	
Underwriters		
Certifying lawyer	Modern Law Firm Guo Hwei-Ji lawyer	
Certifying CPAs	KPMG Certified Public Accountant Taiwan, CPA Guan Chun-Xiu, Lin Xiu-Yu	
Method of reimbursement	Type A: The principal will be refunded one time upon maturity. Type B: 50% and 50% of the capital will be refunded respectively after completion of the 4th and 5th years from the date of issue.	
Principal not yet reimbursed	NT\$ 2.5 billion	
Conditions for redemption or early reimbursement	N/A	
Restrictions	N/A	
Name of credit rating institution, date and results of credit rating	Name: Taiwan Ratings Date: April 23, 2007 Rating: twAA-	
Attachment of other rights	Amount of conversion (by exchange or subscription) into common shares, GDR, or any other securities	N/A
	Method of issue conversion (by exchange or subscription)	N/A
Methods of issue conversion, exchange or subscription; impacts on the conditions of issue against the possible dilution of equity and the current shareholders' equity	N/A	
Custodian for the objects exchanged	N/A	

3. Preferred Shares Issuance: None

4. Global depository receipts (GDRs) issuance: None

5. Employee stock options issuance: None

6. Mergers and acquisitions (M&A) or sales of shares in other company for issue of new shares: None

7. Implementation of Capital Utilization Plans: None

V. Operational Highlights

1. Business Activities

A. Business scope

(1) Main business services

- a. Margin trading and short sale for the trading of securities.
- b. Refinancing to securities firms.
- c. Cash replenishment and underwriting securities financing.
- d. Securities underwriter financing.
- e. Securities settlement financing.
- f. Securities lending.
- g. Other relevant business approved by the authorities.

(2) Revenue summary

Unit: thousand NT\$

Items \ Years	2010		2011		2012	
	Revenue	(%)	Revenue	(%)	Revenue	(%)
Margin trading and short sale	3,526,165	90.80	1,416,260	97.26	924,758	95.69
Refinancing	88,971	2.29	9,340	0.64	12,165	1.26
Securities lending	268,293	6.91	30,580	2.10	29,470	3.05
Total	3,883,429	100.00	1,456,180	100.00	966,393	100.00

(3) New financial products and services in development

To satisfy investors' short-term financing needs and activate the securities market, the company will seek approval from securities financial companies' authorities to engage in the securities-secured financing business.

B. Industry overview

(1) Margin trading and short sale

The impact of "imposition of capital gain tax" caused market investors' confidence to fall in the early of 2012. Since the stock market drive and quantity were insufficient, the market financing balance dropped, and The Company's financing balance dropped drastically. Notwithstanding, The Company's market share in the professional securities firms market remained 75%. Margin trading and short sale services are currently still The Company's core business areas; it will continue to serve agents with a vigorous, reliable, and efficient attitude, and establish collaboration partnerships with agents, achieving a win-win outcome.

(2) Refinancing business

Refinancing services are chiefly aimed at securities traders, and not ordinary investors. Due to the relaxed funds market in recent years, securities traders have increased their capital, which

has sharply reduced the need for refinancing from securities finance companies. As for stock loans to brokers, this accommodation provides stocks to securities traders so that they can make financed sales or repay shares, and is not a source of financing shares for short sale by securities trader investors. As a consequence, its balance of stock loans to brokers has always remained low. Refinancing business accounts for less than 1.5% of The Company's overall business.

(3) Securities lending

In 2012, the market continued to shrunken. Though The Company's financing balance and lendable securities decreased, it still worked hard to develop the securities lending service. This service now accounts for 3% of The Company's revenues, up from the previous 2%.

C. Technology and R&D

The Company is continuing to implement an information platform and in-depth cooperation program, strengthen securities trader information services, and engage in diversified business through a franchise channel approach in conjunction with the group's diversified products, ensuring that The Company's agent services indirectly benefit.

D. Long-term and short-term business development plans

Responding to fast-changing domestic and foreign economic and financial trends, and attempting to secure a competitive advantage in the securities finance market, The Company will focus on the following key services and development items in the future:

- (1) Raising margin loans and stock loans market share and achieving maximum benefit for this company: The company will take advantage of its nearly 75% market share to embark on diversified operations including information and channel franchises, while blocking price-cutting competition by rivals. This will boost the company's share of the margin trading and short sale market, and maximize performance for the company and its customers.
- (2) Promotion of securities lending business:
 - (a) The emergence of derivatives trading has given rise to new arbitrage and hedging needs. In addition to establishing customer relationships with proprietary securities traders, we may also engage new foreign institutional investors given the level of globalization that Taiwan's stock market has achieved.
 - (b) We will also be looking for new sources of securities to lend, apart from using the collaterals from investors' financed share purchases.
- (3) Promotion of capital increase and financing in cash: By means of amendments to laws and regulations and adjustment of the operations, build the Group's capital increase and financing

platform concept and re-activate the capital increase and financing services.

- (4) Proposing deregulation: Working in coordination with securities firms, The Company will propose to the competent authority for approval of offshore securities services and enable securities finance companies to underwrite offshore securities margin trading and short sales and securities lending services.

2. Market and business Overviews

A. Market analysis

(1) Supply, demand conditions, and growth potentials

After securities firms were granted permission to engage in stock market security financing business in 1990, the investor population and number of people opening margin loans accounts increased significantly due to the increase of credit agency institutions. The scale of market transactions and margin loans transactions also expanded rapidly. As of 2012, there are 35 consolidated securities firms and 2 security finance firms engaged in the security financing business. Looking at domestic securities market, the total stock market turnover in 2012 was NT\$ 20.2381 trillion with over 530.7 billion shares traded. At the end of 2012, the market securities margin financing balance was NT\$ 180.3 billion, the security loans balance was 849.22 million shares, and the company's year-end market share of security loans was 5.47% and the market share of security loans was 3.12%. In 2012, the OTC annual stock turnover was NT\$ 2.9519 trillion, and the total volume was 77.2 billion shares. At the end of 2012, the OTC securities margin financing balance was NT\$ 32 billion and the security loans balance was 104.4 million shares. The company's year-end security margin financing market share was 5.58% and market share of security loans was 2.93%.

(2) Competitive niches

- (a) Utilize financial holding synergy: Synergies may be created between the company's businesses and the various subsidiaries in the financial holding group. As the blueprint for the financial holding company takes shape, strategies of overall resources may be put to use, service functions can put to full effect. By expanding overall marketing channels across businesses, the company can stay on top of the pulse of the time and seize financial opportunities.
- (b) Reduce operating cost: Operation costs may be reduced by streamlining of personnel and distribution of costs throughout the group.
- (c) Strictly control credit risks: Implementation of effective and strict risk controls can raise credit quality and prevent bad debts.
- (d) Develop outstanding reputation and professional level of service: The Company was the first domestic securities finance company in Taiwan's securities market. Through the experience

accumulated in financial practices and marketing networks, the company can provide safe and reliable services for the investors credit transactions. Our sincerity can win the trust of customer and forever safeguard the long-term interests of customers.

(3) Advantages and disadvantages for future development and response measures

(a) Advantages

(i) More sufficient stocks source than other securities finance companies: the company has 75% market share, and owns more sufficient stocks source compared with other security finance companies and is in a position to offer more stocks for agency dealers, and investors to short sale.

(ii) Diversified business service: People are paying more attention to financial planning. The company can greatly enhance its competitiveness through offering a diverse range of services and leveraging the combined resources of the group.

(b) Disadvantages

(i) Trend for agency securities companies to set up independent security financing businesses by themselves:

As market skewed towards the needs of economy of scale, many agency securities companies have been acquired or established their own independent security financing business which has led to decline in the agency business. As of the end of 2012, consolidated securities firms' share of the security finance business reached 92.35%.

(ii) Fierce competition between securities finance companies: The fierce competition between security finance companies not only reduces interest spreads but also increases management and business promotion costs.

(c) Response strategies

(i) Consolidated security firms: Consolidated security firms with smaller scale are restricted by their small equity value and lack of security sources resulting in difficulties to expand their credit transaction volumes. The company can leverage its current advantage to assist them to turn into agency securities firms. This can reduce their risk and also increase their business volume and earnings.

(ii) Agency securities firms: Not following the price cutting competition with other securities finance firms, instead the company provides professional service, information, adequate source of securities, outstanding risk control, and stable operations to make Yuanta Securities Finance the only choice for agency securities firms.

B. Business Overviews

(1) Security Margin financing business

Unit: Million NT\$

Years Items		2011		2012	
		Amount	%	Amount	%
Investors' securities margin financing	TWSE market	18,213	82.96%	12,061	84.31%
	OTC market	3,696	16.84%	2,244	15.69%
Securities firms securities margin refinancing	TWSE market	45	0.20%	0	-
	OTC market	0	-	0	-
Total		21,954	100.00%	14,305	100%

The amounts listed above are annualized averages.

(2) Security loans business

Unit: thousand shares

Years Items		2011		2012	
		Amount	%	Amount	%
Investors' Security loans	TWSE market	23,181	78.40%	24,861	77.13%
	OTC market	3,855	13.04%	3,156	9.79%
Securities firms securities loans	TWSE market	2,114	7.15%	3,800	11.79%
	OTC market	416	1.41%	415	1.29%
Total		29,566	100.00%	32,232	100.00%

The amounts listed above are annualized averages

- C. Usage and manufacturing processes for the company's main products : N/A
- D. Supply situation for the company's major raw materials : N/A
- E. A list of any suppliers and clients accounting for 10 percent or more of the company's total procurement (sales) amount in either of the 2 most recent fiscal years : None
- F. An indication of the production volume for the 2 most recent fiscal years : N/A
- G. An indication of the volume of units sold for the 2 most recent fiscal years : N/A

3. Employee demographics

Jan. 2013

Year		2011	2012	2013 (note)
Number of employees	Sales personnel	51	48	48
	Administrative personnel	16	14	14
	Total	67	62	62
Average age		45.50	46.96	47.04
Average years of service		13.65	14.52	14.60
Educational level	Ph. D.	0.00%	0.00%	0.00%
	Masters	20.90%	19.35%	19.35%
	College/University	73.13%	75.81%	75.81%
	Senior high school	4.48%	3.23%	3.23%
	Below senior high school	1.49%	1.61%	1.61%

Note: This information is annualized data up to the date of this annual report's publication (end of Jan. 2013). The number of employees listed in this Table to be understood excluding the short term part-time student workers.

4. Environmental Protection Expenditure Information: None

5. Labor Relations:

A. Employee welfare measures and implementation, labor agreements and safeguarding of employee interests

(1) Retirement plans and pension funds

Following the establishment of the company in 1980, pension and severance measures were adopted and approved at the fifth board meeting of the first term to fully safeguard employees' interests. The employee pension fund management committee, formally established in March 1981, is made up of nine members who are in charge of managing the pension funds, retirement, severance, death or resignation matters in accordance with regulations. On March 1, 1998, the company revised their retirement and severance regulations in line with the Labor Standards Law. A "Pension Fund Supervision Committee" was formed and contributions to the pension fund were set at a monthly rate of 8% of salaries and wages paid. This fund has been reported to the competent authority "The Taipei City Bureau of Labor". The original employee pension fund management committee is in charge of the management and use of the chairman and management pension funds which is disbursed at the same rate as regular employees.

On July 1st, 2005, with the pass of Labor Pension Act, new pension system went into effect. Under the new system, the company is obligated to contribute no less than 6% of monthly paid salaries into pension accounts with the Labor Insurance Bureau which established a more comprehensive and diverse corporate pension system.

(2) Employee welfare measures

The Employee Welfare Committee was formed when the company was first founded. An employee welfare fund was also established in accordance with regulations and corporate capital. Each month, the operating revenue of the company is allocated to the employee welfare fund. This fund is placed under the independent custody of the Employee Welfare Committee. Assistance is also provided to employees to set up beneficial clubs and encourage long-term saving. An employee stock holding association was established in Nov. 2000, which purchases the company's stocks in regular fixed amounts and protects employee welfares after employee retirement or departure from the company.

(3) Harmonious labor relations

As a financial service enterprise, the company revised personnel and work rules to conform to the Labor Standard Law and meet business operation and management requirements on March 1, 1998. Regular "Labor-management" meetings are held not only to safeguard employee rights or overall company interests, but also to include employee-friendly management concepts in each employee welfare program as well as foster communication of opinions, promoting safe and secure lifestyles and ensure harmonious interpersonal relations. Relations between management and labor have been good since the company was founded. There have been no major losses incurred from labor disputes. In 2005, there was one lawsuit concerning severance pay that resulted from a dispute between the company and one employee, Mao Hao-Hsing. The company paid the difference based on the court ruling which settled the case.

6. Major Contracts

Type of contract	Involved parties	Duration of contract	Summary	Restrictive terms
Security contract	The company and SECOM Co., Ltd	One year and five months as of the date of signing.	Supply automatic fire prevention and theft alarm system for the company's operation hall, offices, vaults and storage rooms.	Normal legal principles
Real estate lease contract	The company and the lessee	Three years starting from the contract renting date.	Lessee may not sublet to others during the term of the lease; real estate may only be used as offices, storages and other relevant lease rights and responsibilities.	Normal legal principles
Real estate rental contract	The company and the lessee	Around 3 year to 5 years starting from the contract renting date.	Lessee may not sublet to others during the term of the lease; real estate may only be used as offices, storages and other relevant lease rights and responsibilities.	Normal legal principles
Parking lot lease agreement (Lessee)	Between the company (Lessee) and the other party (Lessor)	Ten years as of the date of lease referred to in the agreement	In the duration of the lease, Lessee shall not sublet or assign the premises. The premises cannot be used for any purposes other than legal ones	Normal legal principles
Property transaction agreement	Huang Su-Wei	April 23, 2012	Sale of land, building, and parking space ownership in Kaohsiung Tower.	The delivery date can not be later than 7 days after the transfer of title deed.
Assignment of business	The Company (Assignor) Yuanfa Securities (Assignee)	Both parties signed the contract on July 26, 2012. The assignment baseline date was November 11, 2012.	The Company transferred the right to operate the margin trading and short sale service customers represented by Ding Fu Securities to Yuanfa Securities succeeded.	None

VI. Financial Statement

1. Summary of Five Years Condensed Balance Sheets and Income Statements

A. Condensed balance sheet

Unit: thousand NT\$

Years		Five years Financial Information Summary (Note1)				
Items		2008	2009	2010	2011	2012
Current assets		42,381,324	67,083,158	41,579,263	18,125,086	14,905,937
Funds and investment		4,018,983	1,364,861	1,669,407	1,169,239	918,534
Fixed assets		217,193	89,267	70,598	83,090	65,976
Intangible assets		7,731	2,451	2,356	3,104	6,172
Other financial assets		611,729	823,250	684,971	359,483	349,048
Total assets		47,236,960	69,362,987	44,006,595	19,740,002	16,245,667
Current liabilities	Before distribution	9,102,134	32,036,384	8,802,459	8,085,022	4,530,160
	After distribution	9,552,485	33,596,383	10,102,287	8,522,488	Note 2
Long-term liabilities		7,506,688	5,005,857	2,504,654	3,378	433
Other liabilities		111,922	113,717	112,916	115,151	111,800
Total liabilities	Before distribution	16,720,744	37,155,958	11,420,029	8,203,551	4,642,393
	After distribution	17,171,095	38,715,957	12,719,857	8,641,017	Note 2
Common stock		15,000,000	16,500,000	22,500,000	6,000,000	6,000,000
Capital reserve		7,025,693	5,525,693	3,926,006	3,328,301	3,328,301
Retained earnings	Before distribution	8,780,933	10,144,281	6,041,179	2,305,793	2,289,316
	After distribution	8,330,582	8,584,282	4,741,351	1,868,327	Note 2
Unrealized gain (loss) on Securities		(290,410)	37,055	119,381	(97,643)	(14,343)
Cumulative translation adjustments		—	—	—	—	—
Net loss not recognized as pension cost		—	—	—	—	—
Total shareholder equity	Before distribution	30,516,216	32,207,029	32,586,566	11,536,451	11,603,274
	After distribution	30,065,865	30,647,030	31,286,738	11,098,985	Note 2

Note 1: Financial information for the past five years was audited and certified by CPAs

Note 2: The 2012 earnings distribution had not yet been approved by the board of directors (acting as proxy for the AGM) up to the publication date of this annual report.

B. Condensed income statements

Unit: thousand NT\$

Years Items		Five years Financial Information Summary (Note1)				
		2008	2009	2010	2011	2012
Operating income		4,614,059	3,320,699	3,883,429	1,456,180	966,393
Operating expenses		1,806,578	1,844,063	2,223,099	959,329	655,798
Operating profits		1,375,983	1,448,024	1,833,614	669,072	405,157
Non-operating income		329,374	977,861	837,048	250,780	173,246
Non-operating expenses		272,640	244,776	479,802	21,645	81,032
Gain (loss) from continuous operating departments before Tax		1,432,717	2,181,109	2,190,860	898,207	497,371
Gain (loss) from continuous operating departments		1,058,226	1,813,699	1,856,897	764,442	420,989
Non operating departments losses		—	—	—	—	—
Extraordinary gain (loss)		—	—	—	—	—
Cumulative impact of changes in accounting principles		—	—	—	—	—
Total profit (Loss)		1,058,226	1,813,699	1,856,897	764,442	420,989
E P S (N T \$)	Before retrospective adjustment	0.92	1.10	0.83	0.75	0.70
	After retrospective adjustment	0.38	0.49	0.51	0.75	0.70

Note : Financial information for the past five years was audited and certified by CPAs

C. Names of the CPAs and audited opinions for the past five years

Year	CPA Firm	CPAs	Opinion
2008	PricewaterhouseCoopers Taiwan	Hsiao Chin-Mu, Huang Chin-Tze	Unqualified opinion
2009	PricewaterhouseCoopers Taiwan (note 1)	Hsiao Chin-Mu, Huang Chin-Tze	Unqualified opinion
2010	PricewaterhouseCoopers Taiwan	Hsiao Chin-Mu, Huang Chin-Tze	Modified unqualified opinion
2011	PricewaterhouseCoopers Taiwan	Lin Sk, Huang Chin-Tze (Note 2)	Unqualified opinion
2012	PricewaterhouseCoopers Taiwan	Lin Sk, Kuo Ellen (Note 3)	Unqualified opinion

Note 1: The PricewaterhouseCoopers Taiwan was renamed from Dec. 25, 2009 .

Note 2: Due to the internal operating adjustment, the CPAs assigned to audit the company's financial statements were changed from PricewaterhouseCoopers Taiwan Hsiao Chin-Mu and Huang Jing-Tze to PricewaterhouseCoopers Taiwan Lin Sk and Huang Jing-Tze from 2011.

Note 3: Due to the internal rotation, the CPAs assigned to audit the company's financial statements were changed from PricewaterhouseCoopers Taiwan Lin Sk and Huang Jing-Tze to PricewaterhouseCoopers Taiwan Lin Sk and Kuo Allen from 2012.

2. Five Years Financial Analysis

Items (Note2) \ Years (Note1)		Five years Financial Analysis				
		2008	2009	2010	2011	2012
Capital Structure Ratios%	Liabilities to Assets Ratio (%)	35.40	53.57	25.95	41.56	28.58
	Long-term capital to fixed assets Ratio (%)	17,506.51	41,687.17	49,705.69	13,888.35	17,587.77
Liquidity Analysis Ratios%	Current ratio	466	209	472	224	329
	Quick ratio	461	206	472	220	327
	Interest coverage ratio	—	—	—	—	—
Activity Analysis Ratios	Accounts Receivable Turnover (times)	—	—	—	—	—
	Average Cash Cycle in days	—	—	—	—	—
	Inventory turnover ratio(times)	—	—	—	—	—
	Payable turnover ratio (times)	—	—	—	—	—
	Average period of sales	—	—	—	—	—
	Fixed assets turnover Ratio (times)	21.24	37.20	55.01	17.53	14.65
	Total asset turnover Ratio (times)	0.10	0.05	0.09	0.07	0.06
Profitability Analysis%	Return on assets (%)	1.48	3.11	3.28	2.40	2.34
	Return on equity (%)	4.31	5.78	5.73	3.47	3.64
	To Capital Ratio	Operating profit	9.17	8.78	8.15	6.75
		Profits before tax	9.55	13.22	9.74	14.97
	Net profit margin (%)	22.93	54.62	47.82	52.50	43.56
	EPS (NT\$)	0.38	0.49	0.51	0.75	0.70
Cash Flow Analysis Ratios	Cash flow ratio (%)	539.50	Note 3	Note 3	160.01	73.74
	Cash flow adequacy ratio (%)	1,375.66	1,560.07	1,220.22	1,226.10	1,387.73
	Cash flow reinvestment (%)	126.22	Note 3	Note 3	99.01	24.56
Leverage Analysis Ratios	Operating leverage	3.28	2.24	2.07	2.13	2.33
	Financial leverage (Note 4)	—	—	—	—	—

The reason for changes in financial ratio within two years:

1. Due to the repayment of NT\$2.5 billion of maturing corporate bonds in May 2012, the ratio of liabilities to assets compared to 2011's decreased.
2. Due to a decrease in computer and telecommunications equipment and leased assets in 2012, the ratio of long-term capital to fixed assets compared to 2011's increased.
3. Due to the repayment of NT\$2.5 billion of maturing corporate bonds and current liabilities decreased in 2012, the ratio of liquidity analysis compared to 2011's increased.
4. Due to operating income decreased in 2012, the ratio of operating profit to capital compared to 2011's decreased.
5. Due to operating income decreased and loss on disposal of financial assets in 2012, the ratio of Profits before tax to capital compared to 2011's decreased.
6. Due to margin loans receivable collection decreased in 2012, the ratio of cash flow and cash flow reinvestment compared to 2011's decreased.

Note 1: The financial data for the past five years has been audited and certified by CPAs.

Note 2: Calculation methods for the financial analysis are listed below:

Note 3: This ratio was not calculated due to the net operating cash flow minus cash dividend being negative in the statement of cash flows.

Note 4: Not applicable to the company

Calculation methods

1. Capital structure ratios

(1) Liability to Asset ratio = Total liabilities / Total assets

(2) Long-term capital to fixed assets = (Total equity + Long-term liabilities) / Net fixed assets

2. Liquidity analysis ratios

(1) Current ratio = Current assets / Current liabilities

(2) Quick ratio = (Current assets - inventory - prepaid expenses) / Current liabilities

(3) Interest coverage ratio = EBIT / Current interest expenses

3. Activity analysis ratios

(1) Accounts receivable turnover (including account receivable and note receivable resulting from operations) = Net sales / Average accounts receivable balance for each period (including account receivable and note receivable resulting from operations)

(2) Average cash cycle (days) = 365 / Accounts receivable turnover

(3) Inventory turnover ratio = COGS / Average inventory

(4) Payable turnover ratio (including account payable and note payable resulting from operations) = COGS / Average accounts payable balance for each period (including account payable and note payable resulting from operations)

(5) Average period of sales (days) = 365 / Inventory turnover

(6) Fixed asset turnover ratio = Net sales / Net fixed assets

(7) Total asset turnover ratio = Net sales / Total assets

4. Profitability analysis ratios

(1) Return on assets = [Net profit (loss) + interest expense × (1 - tax rate)] / average total assets

(2) Return on equity = Net profit (loss) / average total equity

(3) Net margin = Net profit (loss) / net sales

(4) EPS = (Net profit - dividend on preferred stock) / Weighted average outstanding shares

5. Cash flow analysis ratios

(1) Cash flow ratio = Net cash flow from operations / Current liabilities

(2) Cash flow adequacy ratio = Net cash from operations over the past five years / (Capital expenses + change in inventory + cash dividends) over the past five years

(3) Cash flow reinvestment ratio = (Net cash flow from operations - cash dividends) / (Gross fixed assets + long term investments + other assets + operating capital).

6. Leverage analysis ratios

(1) Operating leverage = (Net operating revenues - variable operating costs and expenses) / Operating profits

(2) Financial leverage = Operating profit / (Operating profit - interest expense)

3. Supervisors' Audit Report over recent years (see Page 58)

4. The latest consolidated financial statements audited and certified by the CPAs (See enclosed financial report).

5. Consolidated financial statements of the company and its subsidiaries audited and certified by the CPAs: None

6. Any financial problems encountered by the company and its affiliates which might affect the financial conditions of the company: None

Yuanta Securities Finance Co., Ltd

Supervisor's Examination Report

The Board of Directors has submitted the 2012 Business Report, Financial Statements, and Earnings Distribution Statements. The Financial Statements had been audited and certified by the CPAs, Lin Sk and Kuo Ellen of PricewaterhouseCoopers and an audit report has been issued.

The supervisors have reviewed and audited the above-mentioned documents issued, composed and presented by the Board of Directors. It is concluded that the said documents are presented fairly; therefore, a supervisor's report is hereby issued in accordance with Article 219 of the Company Act.

Yuanta Securities Finance Co., Ltd 2013 Shareholder's Meeting

Yuanta Securities Finance Co., Ltd

Supervisor: Chang Tsai-Yu

Supervisor: Liao Yueh-Jung

March 12, 2013

VII. Financial Status, Operating Results and Risk Management

1. Financial status

Unit: thousand NT\$

Items \ Years	2012	2011	Difference	
			Amount	%
Current Assets	14,905,937	18,125,086	(3,219,149)	(18)
Funds and investment	918,534	1,169,239	(250,705)	(21)
Fixed assets	65,976	83,090	(17,114)	(21)
Intangible assets	6,172	3,104	3,068	99
Other assets	349,048	359,483	(10,435)	(3)
Total assets	16,245,667	19,740,002	(3,494,335)	(18)
Current liabilities	4,530,160	8,085,022	(3,554,862)	(44)
Long-term liabilities	433	3,378	(2,945)	(87)
Other liabilities	111,800	115,151	(3,351)	(3)
Total liabilities	4,642,393	8,203,551	(3,561,158)	(43)
Common stock	6,000,000	6,000,000	0	-
Capital reserve	3,328,301	3,328,301	0	-
Retained earnings	2,289,316	2,305,793	(16,477)	(1)
Unrealized profit (loss) on securities	(14,343)	(97,643)	83,300	85
Total shareholders' equity	11,603,274	11,536,451	66,823	1

Description of items with significant changes in the past two years:

A. Analysis of changes in funds and investments:

The decrease in funds and investments during 2012 was due to repayment of NT\$0.3 billion of the government bonds.

B. Analysis of changes in fixed assets:

The decrease in fixed assets during 2012 was due to a decrease in the 2012 computer and telecommunications equipment and leased assets compared to 2011.

C. Analysis of changes in intangible assets:

The increase in Intangible assets during 2012 was due to purchase of computer software increased compared to 2011.

D. Analysis of changes in current liabilities:

The decrease in current liabilities during 2012 was due to the repayment of NT\$2.5 billion of maturing corporate bonds in May 2012.

E. Analysis of changes in long-term liabilities:

The decrease of long-term liabilities during 2012 was due to lease payments payable – noncurrent decreased compared to 2011.

F. Analysis of changes in the unrealized gain (loss) on securities:

The decrease in the unrealized gain (loss) on securities during 2012 was due to positive available for sale securities appraisal loss decreased in 2012.

2. Operating results

Unit: thousand NT\$

Items \ Years	2012	2011	Increase (decrease)	% change
Operating income	\$966,393	\$1,456,180	(489,787)	(34)
Operating costs	310,595	496,851	(186,256)	(37)
Operating gross profit	655,798	959,329	(303,531)	(32)
Operating expenses	250,641	290,257	(39,616)	(14)
Operating profit	405,157	669,072	(263,915)	(39)
Non-operating income and profits	173,246	250,780	(77,534)	(31)
Non-operating expenses and loss	81,032	21,645	59,387	274
Pre-tax profit from continuing operation	497,371	898,207	(400,836)	(45)
Less: income tax expenses	76,382	133,765	(57,383)	(43)
Current net profits	\$ 420,989	\$ 764,442	(343,453)	(45)

Description of items with significant changes in the past two years:

A. Analysis of changes in operating income:

Due to NT\$7.649 billion decrease in financing and refinancing balance, acquisition, and engagement in margin trading of securities agents in 2012, the operating income decreased.

B. Analysis of changes in operating costs:

Due to the reduction in agency fee payout, the operating cost decreased in 2012.

C. Analysis of changes in non-operating income and profits:

Due to the loss on financial asset disposal, the non-operating income and profits decreased in 2012.

D. Analysis of changes in non-operating expenses and loss:

Due to the loss on financial asset disposal, the non-operating expenses and loss increased in 2012.

E. Analysis of changes in income tax expense:

Due to the reduction in pre-tax profit, the income tax expense decreased in 2012.

3. Liquidity analysis

A. Liquidity analysis for the past two years

Items \ Years	2012	2011	Change (%)
Current ratio (%)	73.74	160.01	(53.92)
Cash flow adequacy Ratio (%)	1,387.73	1,226.10	13.18
Cash flow reinvestment Ratio (%)	24.56	99.01	(75.19)

Description of items with significant changes:

Due to margin loans receivable collection decreased in 2012, the ratio of cash flow and cash flow reinvestment compared to 2011's decreased.

B. Analysis of cash flows in the future year

Unit: thousand NT\$

Initial cash balance	Annual operating net cash flows	Net cash inflow	Amount of cash surplus (shortfall)	Countermeasures for cash shortfall	
				Investment plan	Financial plan
1,217,611	(1,897,351)	857,303	177,563	—	—

(1) Analysis of current year's cash flows:

(a) Operating activities: (NT\$1,897,351,000).

(b) Investment activities: (NT\$164,002,000).

(c) Financing activities: NT\$1,021,305,000.

(2) Liquidity analysis and countermeasures against cash insufficiency: N/A.

4. Effects of Major Capital Expenditures in the Most Recent Fiscal Year on Financial Operations: N/A

5. Major Cause(s) for Gain/Loss due to Investment Policies in the Past Years and Improvement Plan(s) thereof and Investment Plan(s) for the Coming Year:

- A. Continue to make relevant reinvestments in line with the investment strategy of the parent Financial Holding Company and within the investment limits under the legal framework.
- B. Stock dividends from the Company's reinvestment enterprises in 2012: Taiwan Depository & Clearing Corporation 1,405,430 shares, Taiwan Futures Exchange 339,740 shares.
- C. Cash dividends from the Company's reinvestment enterprises in 2012: Taiwan Depository & Clearing Corporation NT\$84,326,000, Taiwan Futures Exchange NT\$30,577,000 are major sources of company earnings.

6. Risk assessment

- A. The impact of changes in recent year interest rate, exchange rate and inflation conditions on company income and the future countermeasures:
 - (1) Interest rate: The Company's main business is credit transaction businesses, and the main profit is from security margin financing interest rate spreads. 2012's spread is slight higher than 2011's, to support the company's income.
 - (2) Exchange rate: The Company's main income is in NT dollars; therefore, exchange rates do not have a significant impact on the company's income.
 - (3) Inflation: No significant impact on the company's income.
- B. Transactions of high risk, high leverage investments, loans to others, endorsements and derivatives trading: None.
- C. Future R&D plans and planned investment of R&D funds: None.
- D. The impact of change in major policies and laws in Taiwan and abroad upon the financial standing of the company and the measures: None.
- E. The impact of technological change and industry changes upon the financial standing of the company and the countermeasures: None.
- F. The impact of change in corporate image upon the corporate risk management and the countermeasures: None.
- G. Expected benefit(s) and possible risk(s) for M&A activities: None.
- H. Expected profit and possible risks of plant expansion: None.
- I. Purchase and sales risks: None.
- J. The impact upon and potential risks for the company due to a significant transfer and the impact upon and potential risks for the company due to a significant transfer and change in shareholding of the directors and supervisors or major shareholders holding over 10%: None.
- K. The impact of change in management and its potential risks: None.
- L. Litigation and non-litigation matters: None.
- M. Other major risks: None.

7. Other significant events: None.

VIII. Special Notes

1. Information on affiliates

A. Relationship between the controlling company and its affiliate companies

Units: Shares; %

Name of controlling company	Reasons for control	Shareholding and pledge by the controlling company			Information on directors, supervisors and management assigned by the controlling company	
		Number of shares held	Shareholding percentage	Number of pledged shares	Title	Name
Yuanta Financial Holdings Co., Ltd.	That company Has acquired 100% of the company shares.	600,000,000	100.00%	0	Director (Chairman) Director (President) Director Director Director Supervisor Supervisor	Chuang Yu-De Lee Ya-pin Yu Yao-ting Yu Kuang-hua Hong Rong-Ting Chang Tsai-Yu Liao Yueh-Jung
Tsun Chueh Investment Co., Ltd.	Mr. Yen Ching Chang is statutory representatives of Tsun Chueh Investment Co., Ltd. And he serve as Chairman representatively of Yuanta financial holdings. According to Article 369-2, Item 2 of the Company Law, the company is empowered to administrate personnel, financial and business management activities.	—	—	—	—	—

Note: The baseline date for above information is Jan. 31, 2013.

B. Information on business transaction(s)

- (1) Purchase and Sales transaction: None
- (2) Property transaction: None
- (3) Capital financing: None
- (4) Assets leasing: None
- (5) Other important transactions: None

C. Endorsement and guarantees: None

D. Other matters having significant impact on financial and business operations: None

Yuanta Securities Finance' Declaration on Affiliation Report

It is hereby declared that the Affiliation Report for 2012 (from January 1, 2012 to December 31, 2012) is prepared and submitted pursuant to the “Principles and Guidelines for Preparation of the Affiliates Consolidated Business Report, Affiliates Consolidated Financial Statements, and the Report.” At the same time, there is no significant inconsistency between the information above and the supplementary information disclosed in the financial statements for the above period.

Company Name: Yuanta Securities Finance Co., Ltd

Chairman: Chuang Yu-De

Date: March 12, 2013

Independent Auditor's Review on Affiliation Report

Tze. Hui. Tsung. No. 12007390

To: Yuanta Securities Finance

The 2012 Affiliation Report of Yuanta Securities Finance is reviewed by PwC in accordance with the Letter of Securities & Futures Commission of Financial Supervisory Commission, Executive Yuan dated November 30, 1999 under reference Tai.Tsai.Cheng (6) No. 04448. It reviewed whether the 2012 affiliation report was prepared in accordance with the "Guidelines for Compilation of the Consolidated Operating Report of Affiliated Enterprises and Consolidated Financial Statements and the Affiliation Report" and whether there is a significant nonconformity between the aforementioned information disclosed and then audited by Pwc.

Based on my review, the composition of the affiliation party report is in compliance with the "Guidelines for Compilation of the Consolidated Operating Report of Affiliated Enterprises and Consolidated Financial Statements and the Affiliation Report" and there are no significant nonconformities identified between the information disclosed in the aforementioned affiliation report and that in the said supplementary financial statements.

PricewaterhouseCoopers

Lin SK

CPA:

Kuo Ellen

Approved by Financial
Supervisory Commission Securities
and Futures Bureau letter
Jin-Guan-Cheng-6-Tzu
No. 0960072936

Approved by Financial
Supervisory Commission letter
Jin-Guan-Cheng-Shen
No. 1000035997

March 12, 2013

2. **Private Placement of Securities in recent years as of the publication date of the annual report: None**
3. **Shares of the Company held or disposed of by subsidiaries in recent years as of the publication date of the annual report: None**
4. **Other supplemental items: None**

IX. Significant Issues which might Affect Shareholders' Equity or Prices of the Shares Pursuant to Item 2, Paragraph 2, Article 36 of the Securities Exchange Act

None

YUANTA SECURITIES FINANCE CO., LTD.
FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 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

PWCR12000345

To the Board of Directors and Shareholders of Yuanta Securities Finance Co., Ltd.

We have audited the accompanying balance sheets of Yuanta Securities Finance Co., Ltd. as of December 31, 2012 and 2011, and the related statements of income, of changes in shareholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We 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 financial statements referred to above present fairly, in all material respects, the financial position of Yuanta Securities Finance Co., Ltd. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Firms", "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling" and generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers, Taiwan

March 12, 2013

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.

YUANTA SECURITIES FINANCE CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	Notes	2012		2011	
		AMOUNT	%	AMOUNT	%
<u>Current Assets</u>					
Cash and cash equivalents	4(1) and 5(2)	\$ 1,217,611	8	\$ 413,951	2
Financial assets at fair value through profit or loss - current	4(2) and 5(2)	633,206	4	622,498	3
Available-for-sale financial assets - current	4(3)	555,960	3	532,778	3
Held-to-maturity financial assets - current	4(4) and 6	300,401	2	499,856	3
Margin loans	4(6)	11,657,771	72	15,577,359	79
Other receivables	5(2)	540,988	3	478,644	2
		<u>14,905,937</u>	<u>92</u>	<u>18,125,086</u>	<u>92</u>
<u>Fund and investments</u>					
Held-to-maturity financial assets - non-current	4(4) and 6	253,204	2	503,909	3
Financial assets carried at cost - non-current	4(5)	665,330	4	665,330	3
		<u>918,534</u>	<u>6</u>	<u>1,169,239</u>	<u>6</u>
<u>Fixed Assets</u>					
Cost:					
Land		50,700	1	50,700	1
Buildings		40,339	-	40,339	-
Computer equipment		20,398	-	24,365	-
Transportation equipment		23,297	-	22,409	-
Miscellaneous equipment		8,399	-	8,399	-
Leasehold assets		13,580	-	20,173	-
Leasehold improvements		17,979	-	17,979	-
		<u>174,692</u>	<u>1</u>	<u>184,364</u>	<u>1</u>
Less: Accumulated depreciation		(69,729)	(1)	(65,486)	(1)
Accumulated impairment loss	4(7)	(41,222)	-	(41,222)	-
Prepayment for equipment		2,235	-	5,434	-
		<u>65,976</u>	<u>-</u>	<u>83,090</u>	<u>-</u>
<u>Intangible Asset</u>					
Computer software costs		6,172	-	3,104	-
<u>Other Assets</u>					
Rental assets	4(7) and 5(2)	211,972	1	214,449	1
Idle assets	4(7)	-	-	9,068	-
Deposits-out	5(2)	12,805	-	13,585	-
Overdue receivables	4(6)	38	-	38	-
Deferred income tax assets - non-current	4(15)	124,233	1	122,343	1
		<u>349,048</u>	<u>2</u>	<u>359,483</u>	<u>2</u>
<u>TOTAL ASSETS</u>		<u>\$ 16,245,667</u>	<u>100</u>	<u>\$ 19,740,002</u>	<u>100</u>

(Continued)

YUANTA SECURITIES FINANCE CO., LTD.

BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2012 AND 2011

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2012		2011	
		AMOUNT	%	AMOUNT	%
<u>Current Liabilities</u>					
Short-term loans	4(8)	\$ -	-	\$ 109,000	1
Short sale proceeds payable	4(6)	1,442,500	9	1,651,043	8
Other payables- related parties	5(2)	50,113	-	1,149	-
Other payables		473,292	3	483,406	2
Other financial liabilities - current	4(6)	1,153,013	7	1,397,834	7
Long-term liabilities - current	4(9)	-	-	2,500,000	13
Lease payable - current		3,604	-	5,443	-
Deposits-in of securities borrowing & lending	4(6) and 5(2)	1,407,638	9	1,937,147	10
		<u>4,530,160</u>	<u>28</u>	<u>8,085,022</u>	<u>41</u>
<u>Long-term Liabilities</u>					
Lease payable - non-current		<u>433</u>	<u>-</u>	<u>3,378</u>	<u>-</u>
<u>Other Liabilities</u>					
Accrued pension liabilities	4 (10)	107,197	1	111,961	1
Deposits-in		1,803	-	1,090	-
Other liabilities - others		<u>2,800</u>	<u>-</u>	<u>2,100</u>	<u>-</u>
		<u>111,800</u>	<u>1</u>	<u>115,151</u>	<u>1</u>
<u>Total Liabilities</u>		<u>4,642,393</u>	<u>29</u>	<u>8,203,551</u>	<u>42</u>
<u>SHAREHOLDERS' EQUITY</u>					
Capital stock	4(11)				
Common stock		6,000,000	37	6,000,000	30
Capital reserve	4(12)				
Additional paid-in capital		3,326,271	20	3,326,271	17
Others		2,030	-	2,030	-
Retained earnings	4(13)				
Legal reserve		1,770,684	11	1,541,351	8
Special reserve		97,643	1	-	-
Unappropriated earnings		420,989	2	764,442	4
Unrealized gain (loss) on financial instruments	4(3)	(14,343)	-	(97,643)	(1)
<u>Total Shareholders' Equity</u>		<u>11,603,274</u>	<u>71</u>	<u>11,536,451</u>	<u>58</u>
<u>Commitments</u>	7				
<u>Other Disclosure Items</u>	11				
<u>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</u>		<u>\$ 16,245,667</u>	<u>\$ 100</u>	<u>\$ 19,740,002</u>	<u>\$ 100</u>

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

YUANTA SECURITIES FINANCE CO., LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT EARNINGS PER SHARE AMOUNT)

	Notes	2012		2011	
		Amount	%	Amount	%
Operating revenues					
Interest revenue		\$ 854,771	88	\$ 1,320,262	91
Other operating revenue	5(2)	111,622	12	135,918	9
		<u>966,393</u>	<u>100</u>	<u>1,456,180</u>	<u>100</u>
Operating cost					
Interest expense		(39,455)	(4)	(99,718)	(7)
Other operating costs	5(2)	(271,140)	(28)	(397,133)	(27)
		<u>(310,595)</u>	<u>(32)</u>	<u>(496,851)</u>	<u>(34)</u>
Gross profit		655,798	68	959,329	66
Operating expenses	4(14)(17) and 5(2)	(250,641)	(26)	(290,257)	(20)
Operating income		<u>405,157</u>	<u>42</u>	<u>669,072</u>	<u>46</u>
Non-operating revenue and income					
Interest income	5(2)	21,827	2	29,644	2
Dividend income		138,651	14	106,536	7
Gain on disposal of fixed assets		1,392	-	-	-
Gain on disposal of investments	4(2) and (3)	-	-	105,861	7
Foreign exchange gain		-	-	3	-
Rental income	5(2)	6,604	1	4,940	1
Other income	5(2)	4,772	1	3,796	-
		<u>173,246</u>	<u>18</u>	<u>250,780</u>	<u>17</u>
Non-operating expenses and losses					
Loss on disposal of fixed assets		-	-	(2,105)	-
Loss on disposal of investments	4(2) and (3)	(77,824)	(8)	-	-
Impairment loss		(67)	-	-	-
Loss on valuation of financial assets	4(2)	(293)	-	(16,170)	(1)
Miscellaneous expenses		(2,848)	-	(3,370)	-
		<u>(81,032)</u>	<u>(8)</u>	<u>(21,645)</u>	<u>(1)</u>
Income before income tax		497,371	52	898,207	62
Income tax expense	4(15)	(76,382)	(8)	(133,765)	(9)
Net income		<u>\$ 420,989</u>	<u>44</u>	<u>\$ 764,442</u>	<u>53</u>
		Before income tax	After income tax	Before income tax	After income tax
Basic earnings per share (expressed in New Taiwan dollars)	4(16)				
Net income		<u>\$ 0.83</u>	<u>\$ 0.70</u>	<u>\$ 0.88</u>	<u>\$ 0.75</u>

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

YUANTA SECURITIES FINANCE CO., LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Common Stock	Additional Paid-in Capital	Retained Earnings			Unappropriated Earnings	Unrealized Gain (Loss) on Market Value Decline of Long-term Equity Investments	Total
			Legal Reserve	Special Reserve				
<u>For the Year Ended December 31, 2011</u>								
Balance as of January 1, 2011	\$ 22,500,000	\$ 3,926,006	\$ 4,184,282	\$ -	\$ 1,856,897	\$ 119,381	\$ 32,586,566	
Appropriation of 2010 earnings (Note 1)								
Legal reserve	-	-	557,069	-	(557,069)	-	-	
Cash dividends	-	-	-	-	(1,299,828)	-	(1,299,828)	
Treasury stock transferred to employees	-	2,295	-	-	-	-	2,295	
Capital infusion by additional paid-in capital	3,800,000	(600,000)	3,200,000	-	-	-	-	
Capital reduction	(20,300,000)	-	-	-	-	-	(20,300,000)	
Unrealized gain on financial instruments	-	-	-	-	-	(217,024)	(217,024)	
Net income for 2011	-	-	-	-	764,442	-	764,442	
Balance as of December 31, 2011	\$ 6,000,000	\$ 3,328,301	\$ 1,541,351	\$ -	\$ 764,442	\$ 97,643	\$ 11,536,451	
<u>For the Year Ended December 31, 2012</u>								
Balance as of January 1, 2012	\$ 6,000,000	\$ 3,328,301	\$ 1,541,351	\$ -	\$ 764,442	\$ 97,643	\$ 11,536,451	
Appropriation of 2011 earnings (Note 2)								
Legal reserve	-	-	229,333	-	(229,333)	-	-	
Special reserve	-	-	-	97,643	(97,643)	-	-	
Cash dividends	-	-	-	-	(437,466)	-	(437,466)	
Unrealized loss on financial instruments	-	-	-	-	-	83,300	83,300	
Net income for 2012	-	-	-	-	420,989	-	420,989	
Balance as of December 31, 2012	\$ 6,000,000	\$ 3,328,301	\$ 1,770,684	\$ 97,643	\$ 420,989	\$ 14,343	\$ 11,603,274	

Note 1: Employees' bonus of \$4,159 for the year ended December 31, 2010 have been eliminated in the statement of income.

Note 2: Employees' bonus of \$1,164 for the year ended December 31, 2011 have been eliminated in the statement of income.

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

YUANTA SECURITIES FINANCE CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2012	2011
<u>Cash flows from operating activities:</u>		
Net income	\$ 420,989	\$ 764,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Recovery of allowance for doubtful accounts	(2,599)	(3,325)
Expense on stock options	-	1,704
Depreciation (including rental assets and idle assets)	21,090	24,537
Amortization of bonds discount	1,075	312
Amortization of intangible assets	2,185	1,269
Loss on valuation of financial assets	293	16,170
Gain (loss) on disposal of fixed assets	(1,392)	2,105
Changes in Assets / Liabilities:		
Financial assets at fair value through profit or loss - current	(11,000)	2,398,726
Margin loans	3,922,187	10,324,326
Other receivables	(62,344)	244,758
Prepayments	-	16
Deferred income tax assets- non-current	(1,890)	(16,868)
Short sale proceeds payable	(208,543)	(93,271)
Other payables	38,850	(424,267)
Stock deposits	(244,821)	(44,295)
Deposits-in of securities borrowing & lending	(529,509)	(262,562)
Accrued pension liabilities	(4,764)	726
Other liabilities - others	700	2,100
Net cash provided by operating activities	<u>3,340,507</u>	<u>12,936,603</u>
<u>Cash flows from investing activities:</u>		
Decrease in available-for-sale financial assets	60,118	893,148
Decrease in held-to-maturity financial assets - non-current	449,085	3,002
Acquisition of fixed assets and non-operating assets	(6,721)	(13,504)
Proceeds from disposal of fixed assets	10,428	9,727
Decrease in deposits-out	780	300,502
Net cash provided by investing activities	<u>513,690</u>	<u>1,192,875</u>
<u>Cash flows from financing activities:</u>		
Decrease (increase) in short-term loans	(109,000)	109,000
Decrease in corporate bond payable	(2,500,000)	(2,500,000)
Decrease in lease payables	(4,784)	(2,727)
Increase (decrease) in deposits-in	713	(591)
Payment of cash dividends	(437,466)	(1,299,828)
Capital reduction by cash	-	(20,300,000)
Net cash used in financing activities	<u>(3,050,537)</u>	<u>(23,994,146)</u>
Net increase (decrease) in cash and cash equivalents	803,660	(9,864,668)
Cash and cash equivalents at beginning of year	413,951	10,278,619
Cash and cash equivalents at end of year	<u>\$ 1,217,611</u>	<u>\$ 413,951</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash payment for interest	<u>\$ 68,117</u>	<u>\$ 130,967</u>
Cash payment for income tax	<u>\$ 28,808</u>	<u>\$ 130,131</u>

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

YUANTA SECURITIES FINANCE CO., LTD.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

- 1) Subsequent to approval from the government of the Republic of China (ROC), Yuanta Securities Finance Co., Ltd. (the Company), formerly Fuhwa Securities Finance Co., Ltd., was established on January 17, 1980, and commenced operations on April 21, 1980. The Company listed its stock on the Taiwan Stock Exchange (TSE) on November 25, 1994. According to the Financial Holding Company Act, the Company and Yuanta Securities Co., Ltd. made an application to establish Yuanta Financial Holding Co., Ltd. (Yuanta Financial Holding) as the listed company on the TSE through share exchanges on February 4, 2002. The Company's stock was unlisted on the same day. As of December 31, 2012, the Company had 62 employees.
- 2) The Company is primarily engaged in providing pecuniary and securities financing facilities for the trading of listed securities, refinancing to securities firms, financing of cash capital increase and underwriting and subscription, offering loans to securities firms for dealing with underwriting, financing of securities settlement, borrowing or lending securities, and other businesses as approved by the authorities.
- 3) The Company's parent company is Yuanta Financial Holding Co., Ltd.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the "Rules Governing the Preparation of Financial Reports by Securities Firms" and generally accepted accounting principles in the Republic of China. The Company's significant accounting policies are described below:

1) Foreign currency transactions

- A. Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction dates.
- B. Receivables, other 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.

- 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) 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.

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 while bond transactions are accounted for using settlement date accounting at fair value.
- 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.

4) Available-for-sale financial assets

- A. Equity securities and beneficiary certificates are accounted for using trade date accounting while debt securities are accounted for using settlement date accounting at fair value.
- 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.
- C. If there is any objective evidence that the financial asset is impaired, a loss is recognized. Subsequent recovery of fair value is recognized in equity. Recovery of fair value of debt instruments is recognized in current operations.

5) Held-to-maturity financial assets

- A. Held-to-maturity financial assets are accounted for using settlement date accounting, and are stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- B. These financial assets are carried at amortized cost.
- C. If there is any objective evidence that the financial asset is impaired, a loss is recognized. Subsequent recovery of fair value is recognized in equity. Recovery of fair value of debt instruments is recognized in current operations.

6) Financial assets carried at cost

- A. Financial assets carried at cost are accounted for using trade date accounting, and are stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- B. If there is an indication of impairment, impairment loss should be recognized in profit or loss. Such impairment loss should not be reversed when the fair values of the asset subsequently increases.

7) Pecuniary, securities financing and securities borrowing & lending

- A. According to the Rules Governing Securities Finance Enterprises (RGSFE), margin loans primarily represent pecuniary financing to investors or refinancing to securities firms. Such loans are secured by the securities purchased by the investors, and the Company records these securities at par value under the memorandum accounts "securities held for collateral" and "liability for holding collateral securities", and are not included in the balance sheets.
- B. According to Article 10 of the RGSFE, margin loan investors must pay a certain percentage of the related stock market price themselves.

- C. Short sale stock loans represent securities financing effected by lending securities in custody that are received from margin loans, guarantee effects or borrowed securities. When the securities are lent to investors, the Company records the par value of the securities lent under the memorandum account "short sale stock loans". Additionally, according to Article 10 of the RGSFE, the investors need to deposit an amount equal to a certain percentage of the proceeds from short sale stock financing as collateral with the Company. The proceeds are accounted for as "stock deposits". The Company deals with these securities at par value under the memorandum account "guarantee effects". The proceeds from sale of securities loaned, less any dealer's commission, financing commission and securities exchange tax, are held by the Company as collateral and recorded under "short sale proceeds payable".
- D. In accordance with SFC Ruling (88) Tai Tsai Cheng (4) No. 03452, when the securities financed by borrowers cease trading, or are delisted from the stock market, or are securities of the borrowers' credit accounts which are unable to be disposed of, the margin loans resulting from the securities financing will be recorded as "other receivables" or "overdue receivables" according to the result of negotiation or collection. Due to the insufficient margin percentage as collateral for a fall in stock price, the uncovered balance of the margin loan after disposing of the respective stocks was recorded as "overdue receivables".
- E. "Stock short sales" means investor borrowing stocks from a lender who owns the stocks, with the promise that the investor will return them later to the lender with same kind and same quantity of stocks. When stocks are borrowed, the Company records the par value of the borrowed stocks under the memorandum account "borrowed stocks". If the Company pays guarantee deposits for borrowing, it records "refundable guarantee deposits"; or if it provides collaterals with value equal to the stocks borrowed, it records the par value of the collaterals under the memorandum account "refundable collaterals". When stocks are lent, the Company records the par value of the lent stocks under the memorandum account "stock short sales". If the Company receives guarantee deposits for lending, it records "guarantee deposits received"; or if it receives collaterals with value equal to the stocks lent, it records the par value of the collaterals under the memorandum account "collaterals received".
- 8) Margin loans and other receivables
- A. Margin loans are claims resulting from the credit transactions. Other receivables are receivables other than margin loans. Margin loans and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

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.

9) Fixed assets, rental assets, and idle assets

- A. Fixed and rental assets are stated at cost. Interest incurred required to complete and prepare the asset for its intended use is capitalized.
- B. Depreciation is provided using the straight-line method based on the estimated economic useful lives of the assets plus one year as residual value. The estimated useful lives of major fixed assets range from 3~5 years, except for buildings which is 5~55 years.
- C. Major renewals and improvements are capitalized and depreciated accordingly. Maintenance and repairs are expensed when incurred.
- D. The rental payments on capital lease should be capitalized as leased assets and a lease liability should be recognized. All capital leased property should be depreciated. If the lease contract contains a bargain purchase option or allows the transfer of ownership at the end of the term, then the depreciation should be determined based on the leased property's useful economic life. Otherwise, the lease term is used. If the Company sells its property to others and immediately leases it back, the gain or loss resulting from the sale of leased property should be deferred using the "unearned gain or loss on sales-leaseback" account. The amortization of the unearned gain or loss on sales-leaseback depends on the nature of the lease. If the fair value of the leased property is smaller than its book value on disposal, then the Company should recognize the difference between the fair value and the book value as a loss in the current period.
- E. 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.

10) Intangible assets

Intangible assets consist of computer software costs which are stated at cost and amortized over the estimated useful life of 3~5 years using the straight-line method.

11) 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.

12) Bonds payable

- 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. Significant differences between redemption and the book value are recognized as extraordinary gain or loss.

13) Pension plan

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

14) Income tax

- A. Provision for income tax includes deferred income tax resulting from temporary differences, investment tax credits 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 stockholders approve a resolution to retain the earnings.
- C. From the year of 2003, according to Article 49 of the Financial Holding Company Act and Income Tax Act, the Company elects its parent company, Yuanta Financial Holding Co., Ltd., as the taxpayer to file the consolidated profit-seeking enterprise income tax returns. In addition to the consolidated income tax returns, the Company has to compute its income tax on an individual filing basis pursuant to R.O.C. SFAS No. 22, “Accounting for Income Taxes”, and records the tax receipts and tax payments arising from the consolidated income tax returns in the current period’s deferred income tax assets (liabilities), income tax payable (income tax refundable) and other receivables (payables) - affiliates in the Company’s financial statements.

15) 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 the amended 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.

16) Share-based payment — employee compensation plan

In accordance with the “Regulations Governing The Transfer Of The Company’s Shares Which Were Bought Back By The Company To Employees” as prescribed by the Company’s parent company - Yuanta Financial Holding Co., Ltd, all regular employees of the Company are entitled to parent company stock options. For treasury stocks of parent company reissued to employees as compensation, compensation cost is recognized using the fair value method, in accordance with EITF 96-266, “Accounting for Transfer Of Enterprise’s Treasury Stocks To Employees”, dated October 12, 2007, as prescribed by the R.O.C. Accounting Research and Development Foundation. The cost of the services received during the vesting period is measured based on the option pricing model at the grant date, and is amortized as payroll expenses during that period.

17) 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 significantly different from the actual distributed amounts resolved by the stockholders at their annual meeting subsequently, the difference shall be recognized as gain or loss in the year of distribution. The Company calculates the number of shares of employees’ stock bonus based on the net asset value in the latest audited financial statements.

18) Revenues, costs and expenses

Revenue is recognized when it is realized or realizable and it is earned. Cost associated with revenue is recognized as incurred and expense is recognized as incurred on an accrual basis.

19) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates 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.

20) Settlement date accounting

When settlement date accounting is used, any change in the fair value of the asset during the period between the trade date and the settlement date is not recognized for assets carried at cost or amortized cost. For financial assets and financial liabilities at fair value through profit or loss, the change in fair value is recognized in profit or loss. For available-for-sale financial assets, the change in fair value is recognized directly in equity.

21) Operating segments

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.

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) Margin loans and other receivables

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 margin loans and other receivables is recognized when there is objective evidence that the receivables are impaired. This change in accounting principle had no significant effect on net income and earnings per share for the year ended December 31, 2011.

2) Operating segments

Effective January 1, 2011, the Company adopted the newly issued R.O.C. SFAS No. 41, "Operating Segments" in place of the original R.O.C. SFAS No. 20, "Segment Reporting". This change in accounting principle had no significant effect on net income and earnings per share for the year ended December 31, 2011.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) CASH AND CASH EQUIVALENTS

	December 31,	
	2012	2011
Petty cash	\$ 560	\$ 560
Demand deposits	8,656	7,504
Savings deposits		
- NTD	19,335	6,930
- USD	211,068	262,015
Fixed deposits		
- NTD	19,000	-
- USD	-	136,942
	258,619	413,951
Cash equivalents - Repurchase agreement	958,992	-
	<u>\$ 1,217,611</u>	<u>\$ 413,951</u>

2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	December 31,	
	2012	2011
Financial assets held for trading:		
<u>Equity instruments</u>		
Beneficiary certificates	\$ 631,015	\$ 620,015
Adjustment of beneficiary certificates	2,191	2,483
	<u>\$ 633,206</u>	<u>\$ 622,498</u>

For the years ended December 31, 2012 and 2011, net gain (loss) on related financial assets were as follows:

	For the years ended December 31,	
	2012	2011
Realized gain (loss) on disposal:		
Beneficiary certificates	\$ 5,110	(\$ 7,674)
Equity instruments	-	(60,960)
	<u>\$ 5,110</u>	<u>(\$ 68,634)</u>
	For the years ended December 31,	
	2012	2011
Unrealized loss on disposal:		
Beneficiary certificates	(\$ 293)	(\$ 13,866)
Equity instruments	-	(2,304)
	<u>(\$ 293)</u>	<u>(\$ 16,170)</u>

3) AVAILABLE-FOR-SALE FINANCIAL ASSETS – CURRENT

	For the years ended December 31,	
	2012	2011
Listed stocks	\$ 508,188	\$ 555,295
Beneficiary securities	456,270	469,281
Subtotal	964,458	1,024,576
Adjustments	(14,343)	(97,643)
Accumulated impairment loss	(394,155)	(394,155)
	<u>\$ 555,960</u>	<u>\$ 532,778</u>

For the years ended December 31, 2012 and 2011, net gain (loss) on disposal of related financial assets were as follows:

	For the years ended December 31,	
	2012	2011
Realized (loss) gain on disposal:		
Listed (TSE and OTC) stocks	(\$ 82,934)	\$ 174,495

4) HELD-TO-MATURITY FINANCIAL ASSETS

	December 31,	
	2012	2011
Current items:		
Financial debentures	\$ -	\$ 100,501
Government bonds	300,401	399,355
	<u>\$ 300,401</u>	<u>\$ 499,856</u>
Noncurrent items:		
Government bonds	253,204	503,909
	<u>\$ 253,204</u>	<u>\$ 503,909</u>

A. In 2012 and 2011, the effective interest rates of the bonds held by the Company was between 1.13%~2.44% and 1.18%~2.68%, respectively.

B. According to the RGSFE, a securities finance company should deposit an amount of cash, government bonds, financial debenture or bank guaranteed corporate bond in the Central Bank of China (CBC) which is equal to or exceeds 5% of its capital. For the amounts of securities financing deposits, please refer to Note 6 for details.

5) FINANCIAL ASSETS CARRIED AT COST – NONCURRENT

	December 31,	
	2012	2011
Unlisted stocks	<u>\$ 665,330</u>	<u>\$ 665,330</u>

These financial assets were recorded at cost as there is no public quote in an active market and their fair values are not reliably measurable.

6) MARGIN LOANS, SHORT SALE STOCK LOANS AND SECURITIES BORROWING & LENDING

	December 31,	
	2012	2011
Margin loans	\$ 11,658,564	\$ 15,578,389
Less : allowance for doubtful accounts	(793)	(1,030)
	<u>\$ 11,657,771</u>	<u>\$ 15,577,359</u>
Accounts payable	<u>\$ 1,442,500</u>	<u>\$ 1,651,043</u>

- A. The percentages of margin loans for listed stocks were 60% (TSE) and 50% (OTC) in 2012 and 2011, respectively. Interest rates for pecuniary financing to securities firms and investors ranged from 6.25 % to 6.35% and 5.975% to 6.35% per annum in 2012 and 2011, respectively.
- B. The stipulated percentage of deposits from the proceeds of short sale stock financing was 90% in both 2012 and 2011. The interest rates on the short sale proceeds payable and stock deposits were 0.2% and 0.1%~0.2% per annum in 2012 and 2011, respectively.
- C. The stipulated percentage of deposits from securities lending business (shown in “deposits from securities lending business”) was 140% in both 2012 and 2011. The interest rate on the interest payable for such deposits was 0.2% and 0.1%~0.2% per annum in 2012 and 2011, respectively.
- D. Due to the insufficient margin percentage for collateral from a decrease in stock price, the uncovered balance of the margin loans by disposing of the respective stocks was recorded as overdue receivables. As of December 31, 2012 and 2011, the overdue receivables of pecuniary and securities financing transactions were as follows:

	December 31,	
	2012	2011
Overdue receivables	\$ 76	\$ 75
Less: allowance for bad debts	(38)	(37)
	<u>\$ 38</u>	<u>\$ 38</u>

7) IMPAIRMENT OF NON-FINANCIAL ASSETS

Changes in accumulated impairment for the years ended December 31, 2012 and 2011 were as follows:

Non-financial asset impairment

Details are set forth below:

For the year ended December 31, 2012					
	Beginning balance	Additions	Transfers	Sales	Ending balance
1.Fixed assets					
Land	\$ 31,886	\$ -		\$ -	\$ 31,886
Buildings	9,336	-	-	-	9,336
Total	\$ 41,222	\$ -	\$ -	\$ -	\$ 41,222
2.Rental assets					
Land	\$ 127,885	\$ -		\$ -	\$ 127,885
Buildings	53,073	-	-	-	53,073
Total	\$ 180,958	\$ -	\$ -	\$ -	\$ 180,958
3.Idle assets					
Land	\$ 8,479	\$ -		(\$ 8,479)	\$ -
Buildings	617	-	-	(617)	-
Total	\$ 9,096	\$ -	\$ -	(\$ 9,096)	\$ -
For the year ended December 31, 2011					
	Beginning balance	Additions	Transfers	Sales	Ending balance
1.Fixed assets					
Land	\$ 4,906	\$ -	\$ 26,980	\$ -	\$ 31,886
Buildings	358	-	8,978	-	9,336
Total	\$ 5,264	\$ -	\$ 35,958	\$ -	\$ 41,222
2.Rental assets					
Land	\$ 154,865	\$ -	(\$ 26,980)	\$ -	\$ 127,885
Buildings	62,051	-	(8,978)	-	53,073
Total	\$ 216,916	\$ -	(\$ 35,958)	\$ -	\$ 180,958
3.Idle assets					
Land	\$ 16,957	\$ -	(\$ 8,478)	\$ -	\$ 8,479
Buildings	1,236	-	(619)	-	617
Total	\$ 18,193	\$ -	(9,097)	\$ -	\$ 9,096
4.Non-current assets held for sale	\$ -	\$ -	\$ 9,097	(\$ 9,097)	\$ -

On June 15, 2011, the Company signed a contract with Hyun Hong Technology Co., Ltd. to sell its real estate in the amount of \$9,800 (shown under ‘non-current assets held for sale’). The ownership of the real estate was transferred to Hyun Hong Technology Co., Ltd. on June 30, 2011, and the real estate was handed over to Hyun Hong Technology Co., Ltd. on July 4, 2011.

8) SHORT-TERM LOANS

	December 31,	
	2012	2011
Unsecured loans	\$ -	\$ 109,000
Annual interest rates	-	0.95%

In accordance with Article 4 of the “Regulations Governing the Central Bank of the Republic of China (Taiwan) Administration of Accommodations Extended by Banks to Securities Finance Companies or Securities Firms”, the total capital borrowed by a securities finance company from all banks should not exceed 6 times a securities finance company’s net assets value, and a securities finance company’s total liabilities should not exceed 11.5 times its net assets value.

9) BOND PAYABLE

	December 31,	
	2012	2011
Bonds payable	\$ -	\$ 2,500,000
Less: current prortion	-	(2,500,000)
	<u>\$ -</u>	<u>\$ -</u>

The Company issued domestic unsecured ordinary corporate bonds on May 30, 2007. The significant terms of the bonds are summarized as follows:

- A. Total issue amount: Two types of bonds, A and B, totaling \$7,500,000, with different issue periods.
- B. Issuance price: At par value of \$1,000 per bond.
- C. Interest rate: The annual interest rates on A-type and B-type bonds are fixed at 2.05% and 2.13%, respectively.
- D. Repayment of bonds: The principal of A-type bonds will be repaid in lump sum at maturity; 50% and 50% repayments of B-type bonds principal will be made in the fourth and fifth years after the issuance date.
- E. Life of bonds: Time limit for issuance of A-type bonds is three years, and time limit for issuance of B-type bonds is five years.
- F. Payment of interests: Payments of interests are made annually after issuance of bonds based on the designated interest rates and simple interest calculation. Interests are accrued for each \$1,000,000 of bonds and are rounded off.
- G. All these bonds had been due and redeemed on May 30, 2012.

10) PENSION PLAN

The Company has a defined benefit pension plan in accordance with the Labor Standard Law (the "Law"), covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. The Company provides benefits based on an employees' 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 61 units. The Company contributes monthly an amount equal to 8% of employees' monthly base salaries and wages to an independent fund with the Bank of Taiwan, the trustee.

The following sets forth the pension information based on the actuarial report:

- 1. Actuarial assumptions for 2012 and 2011: discount rate of 1.75% and 1.90%, respectively, expected return rate on plan assets of 1.75% and 1.90%, respectively, and rate of compensation both increase by 2.5%. Under the actuarial method, unrealized transition asset is amortized over 15 years.

2. The reconciliation of the plan funded status:

	December 31,	
	2012	2011
Benefit obligation		
Vested benefit obligation	(\$ 97,492)	(\$ 121,352)
Non-vested benefit obligation	(97)	(693)
Accumulated benefit obligation	(97,589)	(122,045)
Additional benefit based on future salaries	(24,510)	(32,686)
Projected benefit obligation	(122,099)	(154,731)
Fair value of plan assets	25,586	24,287
Funded status	(96,513)	(130,444)
Unrecognized pension loss (gain)	(10,684)	18,483
Accrued pension liabilities	(\$ 107,197)	(\$ 111,961)
Vested benefit	\$ 115,866	\$ 147,669

3. The net periodic pension cost is as follows:

	For the years ended December 31,	
	2012	2011
Service cost	\$ 4,875	\$ 4,117
Interest cost	2,940	2,515
Actual return on plan assets	(461)	(388)
Amortization :		
Unrecognized pension gain or loss	200	-
Net periodic pension cost	\$ 7,554	\$ 6,244

Effective July 1, 2005, the Company established the defined contribution plan for employees with 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 not less than 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 \$2,130 and \$2,171 under the New Plan for the years ended December 31, 2012 and 2011, respectively.

11) COMMON STOCK (Par value per share is expressed in New Taiwan Dollars)

- A. The Board of Directors (acting on behalf of the stockholders) of the Company on August 30, 2011 resolved to reduce the capital of \$3,800,000. The capital reduction has been approved by the competent authorities on October 12, 2011, and the effective date of reduction was set on November 25, 2011. The capital reduction had been registered.

- B. In accordance with the resolution adopted by the Board of Directors (acting on behalf of the stockholders) on April 26, 2011, the Company decided to capitalize profit appropriation of \$3,200,000 and capital reserve of \$600,000. The capitalization has been approved by the competent authorities and had been registered.
- C. As of December 31, 2012 and 2011, the Company's authorized capital was both \$22,500,000. The Company's outstanding common stocks were both 600,000 thousand shares, including 280,000 thousand which were raised through the private placement as of December 31, 2012 and 2011, respectively, with a par value of \$10 (in dollars) per share.

12) 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. 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 related explanations regarding additional paid-in capital – stock option, please refer to Note 4(14).

13) RETAINED EARNINGS

- A. 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 year's operating losses and then 30% of the remaining amount shall be set aside as legal reserve, and special reserve shall be set aside according to relevant regulations. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders. The bonus distributed to the employees and remuneration paid to the directors and supervisors should account for 0% and 0.01%~5%, respectively, of the total distributed amount.
- B. Effective from January 1, 1994, the Company sets aside 30% of net income after tax as legal reserve following the instructions of Ministry of Finance. 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 distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

- C. Pursuant to the Jin-Guan-Zheng (1) Letter No. 0950000507, effective January 1, 2007 of the Financial Supervisory Commission, Executive Yuan, in relation to the appropriation of the preceding year's earnings, a public company shall set aside an amount of special reserve which is equal to the amount of "unrealized loss on financial instruments" under the stockholders' equity.
- D. The Board of Directors (acting on behalf of the stockholders) of the Company on April 24, 2012 and April 26, 2011 resolved to appropriate the employees' bonus and remunerations of 2010. The details are as follows:

	2011		2010	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 229,333	\$ -	\$ 557,069	\$ -
Special reserve	97,643	-	-	-
Cash dividends	437,466	0.73	1,299,828	2.16

- E. The appropriation of the Company's 2012 earnings as proposed by the Board of Directors on March 12, 2013 is as follows:

	2012	
	Amount	Dividends per share (in dollars)
Legal reserve	\$ 126,297	
(Reversal) Special reserve	(83,300)	
Cash dividends	377,992	\$ 0.63
Total	<u>\$ 420,989</u>	

- F. The estimated amount of employees' bonus for 2012 and 2011 were \$702 and \$1,164, respectively. This was based on a certain percentage (as prescribed by the Company's Articles of Incorporation) of net income in this year after taking into account the legal reserve and other factors. The actual distribution of employees' bonus and directors' and supervisors' remuneration of 2011 were in agreement with those amounts recognized in the 2011 financial statements.

14) SHARE-BASED PAYMENT - EMPLOYEE COMPENSATION PLAN

- A. As of December 31, 2012, the Company had no more share-based payment transactions ; the Company's share-based payment transactions in prior years are set forth below:

Type of arrangement	Grant date	Quantity granted (in thousand shares)	Contract period	Vesting conditions (in years)	Actual resignation rate in the current period	Estimated future resignation rate
Treasury stock transferred to employees	2009 installments	61,000	2009.1.21~2011.3.31	Vesting service period: 2.189 years	0%	0%
"	2011	294,000	2011.4.18~2011.4.29	Vesting service period: 0.030 years	0%	0%

B. Details of the employee stock options are set forth below:

As of December 31, 2012: No such transactions.

	December 31, 2011	
	No. of shares (shares)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of year	61,000	\$ 11.89
Options offered	294,000	11.89
Options granted	(349,000)	11.89
Options expired	(6,000)	11.89
Options outstanding at end of year	-	
Options exercisable at end of year	-	

C. For the stock options granted on or after January 1, 2009 with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model. The weighted-average parameters used in the estimation of the fair value are as follows:

Type of arrangement	Grant date	Stock Price (in dollars)	Exercise Price (in dollars)	Expected price volatility	Expected vesting period (in years)	Expected dividend yield rate	Risk-free interest rate	Fair value per unit (in dollars)
Treasury stock transferred to employees	2009 installments	\$ 12.2	\$ 11.89	59.83%	1.189	5.33%	0.74%	\$ 2.8061
"	"	"	"	53.70%	2.189	5.33%	1.09%	3.1048
"	2011	19.75	"	29.88%	0.030	4.56%	0.16%	7.8021

D. Expense on share-based payment:

As of December 31, 2012: No such transactions.

	2011
Equity Transaction	\$ 1,704

15) INCOME TAX

A. Income tax expense and payable (refundable) are reconciled as follows:

	December 31,	
	2012	2011
Consolidated income tax payable (refundable)	\$ 49,007	(\$ 4,675)
Prepaid income tax	28,808	130,131
Net effect of deferred tax assets	(1,890)	(16,868)
Under provision of prior year's income tax	457	25,177
Income tax expense - current	76,382	133,765
Retention tax (10%) on unappropriated earnings	-	-
Income tax expense	<u>\$ 76,382</u>	<u>\$ 133,765</u>

B. The temporary tax differences of deferred tax assets are as follows:

	December 31,			
	2012		2011	
Temporary differences	Amount	Tax effect	Amount	Tax effect
Non-current:				
- Deferred pension cost	\$ 167,271	\$ 28,436	\$ 171,309	\$ 29,122
- Deferred financial asset cost	111,430	18,943	98,420	16,731
- Impairment loss	456,563	77,615	457,182	77,721
- Others	3,089	526	327	56
		125,520		123,630
Valuation allowance		(1,287)		(1,287)
		<u>\$ 124,233</u>		<u>\$ 122,343</u>

C. Imputation tax system

	December 31,	
	2012	2011
Balance of imputation credit account	<u>\$ 760</u>	<u>\$ 31,827</u>
	2012	2011
Estimated/actual rate of imputation credit	<u>-</u>	<u>12.28%</u>

D. Unappropriated earnings recorded in the financial statements were accrued after 1998.

E. As of December 31, 2012, the Company's income tax returns through 2006 have been assessed by the Tax Authority.

F. The Tax Authority has assessed the Company an additional income tax of \$30,744. The Company did not agree with the Tax Authority's ruling and is considering filing an administrative remedy. However, based on conservatism principle, such additional tax payable has been accrued by the Company.

16) EARNINGS PER SHARE

The Company has a simple capital structure. The earnings per share for 2012 and 2011 were calculated based on the weighted-average outstanding common stock of 600,000 thousand shares and 1,015,315 thousand shares, respectively.

17) PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

The following is a summary of personnel expenses, depreciation and amortization:

Nature/ Function	For the years ended December 31,	
	2012	2011
Personnel expenses		
Salaries	\$ 104,365	\$ 113,036
Employees' bonus	702	\$ 1,164
Insurance	5,441	5,144
Pension	9,684	8,415
Others	4,851	6,596
Depreciation (Note)	18,581	21,859
Amortization	2,185	1,269

Note: Depreciation on rental assets for the years ended December 31, 2012 and 2011 was \$2,509 and \$2,678, respectively, and was recorded as non-operating expense.

5. RELATED PARTY TRANSACTIONS

1) Names and relationships of related parties

Names of related parties	Relationship with the Company
Yuanta Financial Holdings Co., Ltd.	Parent Company
Yuanta Securities Co., Ltd. (Yuanta Securities)	Affiliated company controlled by the Parent Company
Yuanta Commercial Bank (Y.C.B.)	Affiliated company controlled by the Parent Company
Yuanta Futures Co., Ltd.	Affiliated company controlled by the Parent Company
Yuanta Securities Investment Trust Co., Ltd.	Affiliated company controlled by the Parent Company
Yuanta Investment Consulting	Affiliated company controlled by the Parent Company
Yuanta International Personal Insurance Agency Co., Ltd. (Y.I.P.I.A. Co.)	Affiliated company controlled by the Parent Company

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Yuanta Venture Capital Co. Ltd.	Affiliated company controlled by the Parent Company
Yuanta International Asset Management Company Ltd.	Affiliated company controlled by the Parent Company
Yuanta Securities (Hong Kong) Company Limited	Affiliated company controlled by the Parent Company
Polaris Research Institution	Related party in substance
Yuanta Cultural & Educational Foundation	Related party in substance
Fund of Y.S.I.T. Co.	Fund managed by the affiliated company

2) Significant related party transactions and balances

A. Securities lending

	For the years ended December 31,			
	2012		2011	
	Amount	Percentage	Amount	Percentage
Yuanta Securities	\$ 7,150	7	\$ 1,590	1
Yuanta Securities (Hong Kong)	7,116	6	4,397	3
	<u>\$ 14,266</u>	<u>13</u>	<u>\$ 5,987</u>	<u>4</u>

There was no significant difference between transactions with Yuanta Securities and those with other parties.

B. Operating expense

(1) Details of fees on services rendered by related parties are set forth below:

	For the years ended December 31,	
	2012	2011
Yuanta Investment Consulting	<u>\$ 9,000</u>	<u>\$ 11,088</u>

(2) Donations:

	For the years ended December 31,	
	2012	2011
Yuanta Cultural & Educational Foundation	\$ 8,000	\$ 8,000
Polaris Research Institution	1,500	-
	<u>\$ 9,500</u>	<u>\$ 8,000</u>

- (3) The Company leases offices from Yuanta Securities commencing from June 2008. The leases will expire in June 2014. The rentals were determined by reference to the rental rates of the near-by offices and contracted by the related parties. Future lease payments required under the rents are payable according to the terms of the lease contracts. Rents of \$18,856 and \$20,322 had been paid for years 2012 and 2011, respectively. Future lease payments required under these leases are shown below:

Period	Amount
2013	\$ 18,018
January~June,2014	8,258
	<u>\$ 26,276</u>

C. Rent revenue

The Company rented office and parking premises to its related parties as follows:

	For the years ended December 31,	
	2012	2011
Yuanta Securities	\$ 2,709	\$ 1,747
Yuanta Commercial Bank	2,539	2,538
Yuanta Securities Investment Trust Co., Ltd.	580	380
	<u>\$ 5,828</u>	<u>\$ 4,665</u>

Rent is based on the rental rates of near-by offices and agreed to by the related parties. Rents are payable according to the terms of lease contracts.

D. Other revenue

	For the year ended December 31,	
	2012	2011
Yuanta Securities Co., Ltd.	<u>\$ 1,970</u>	<u>\$ -</u>

Other revenue refers to the consideration received by the Company for transferring securities margin purchases and short sales businesses to Yuanta Securities Co., Ltd..

E. Other receivables

	Type	December 31,	
		2012	2011
Yuanta Financial Holdings Co., Ltd.	Consolidated income tax payment	\$ 26,709	\$ 22,369
Yuanta Securities	Securities borrowing & Lending	1,468	346
Yuanta Securities (Hong Kong)	Securities borrowing & Lending	318	2,906
Others		3	1
		<u>\$ 28,498</u>	<u>\$ 25,622</u>

F. Deposits-out

	December 31,	
	2012	2011
Yuanta Securities	\$ 4,504	\$ 5,067

G. Other payables

	Type	December 31,	
		2012	2011
Yuanta Securities	Commission	\$ 18	\$ -
	Securities borrowing & lending	50	60
	Others	3	14
		71	74
Yuanta Financial Holdings	Income tax payable	49,007	-
	Others	284	138
		49,291	138
Others		751	937
		\$ 50,113	\$ 1,149

H. The following sets out guarantee deposits received because of the securities financing transactions between the Company and the related parties:

	December 31,	
	2012	2011
Yuanta Securities	\$ 155,775	\$ 138,295
Yuanta Securities (Hong Kong)	116,848	398,135
	\$ 272,623	\$ 536,430

I. Property transactions

Open-end mutual funds beneficiary certificates and money market instruments:

Related Party	December 31,	
	2012	2011
Fund of Y.S.I.T. Co.	\$ 6,869	\$ 200,000

J. Others

Bank deposits and interest income

The details of the Company's deposits in Yuanta Commercial Bank and the related interest income were as follows:

	As of and for the years ended December 31,	
	2012	2011
Ending balance of bank deposits	\$ 21,479	\$ 34,452
Interest income	\$ 31	\$ -

K. Compensation of key management

The following sets forth the salaries/rewards information of key management, such as directors, supervisors, general manager, vice general manager, etc.:

	For the years ended December 31,	
	2012	2011
Salaries	\$ 9,840	\$ 10,120
Bonuses	7,418	8,592
Service execution fees	1,415	1,980
Earnings distribution	166	253
	<u>\$ 18,839</u>	<u>\$ 20,945</u>

- a) Salaries include regular wages, special responsibility allowances, pensions, severance pay, etc.
- b) Bonuses include various bonuses and rewards.
- c) Service execution fees include travel allowances, special expenditures, various allowances, housing & vehicle benefits, etc.
- d) Earnings distribution means directors' and supervisors' remuneration and employees' bonus accrued in current year.
- e) The relevant information above was posted in the Company's annual report.

6. PLEDGED ASSETS

The book values of assets pledged or restricted for use are as follows:

Assets	December 31,		Purpose
	2012	2011	
Held-to-maturity financial assets			
- Government bonds	\$ -	\$ 1,896	Provisional seizure
- Government bonds	10,171	9,974	Operating guarantee deposits for trading bonds
- Government bonds	240,681	299,067	Stock borrowings
- Government bonds and Financial bonds	302,753	304,030	Securities financing deposit in Central Bank of the Republic of China (Taiwan)

7. COMMITMENTS

- 1) As of December 31, 2012 and 2011, the stocks entrusted to the custody of the Company by clients both totaled 7,485,000 shares, with a market value of approximately \$77,785 and \$77,851, respectively.
- 2) For information on future lease payments required due to the Company leasing offices from related parties by operating leases as of December 31, 2012, please refer to Note 5 (2).

8. SIGNIFICANT LOSS FROM NATURAL DISASTER

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

10. OTHERS

1) Information of derivative financial instruments

No derivative transactions were entered into by the Company for the years ended December 31, 2012 and 2011.

2) The fair value of the non-derivative financial instruments

December 31, 2012			
	Book value	Fair value	
		Quotations in an active market	Estimated using a valuation method
Assets:			
Financial assets with fair value equal to book value	\$ 13,389,699	\$ -	\$ 13,389,699
Financial assets at fair value through profit or loss - current	633,206	633,206	-
Available-for-sale financial assets - current	555,960	476,425	79,535
Held-to-maturity financial assets	553,605	557,860	-
Deposits-out	12,805	-	12,805
Liabilities:			
Financial liabilities with fair value equal to book value	4,552,179	-	4,552,179
December 31, 2011			
	Book value	Fair value	
		Quotations in an active market	Estimated using a valuation method
Assets:			
Financial assets with fair value equal to book value	\$ 16,447,623	\$ -	\$ 16,447,623
Financial assets at fair value through profit or loss - current	622,498	622,498	-
Available-for-sale financial assets - current	532,778	456,422	76,356
Held-to-maturity financial assets	1,003,765	1,013,493	-
Deposits-out	13,585	-	13,585
Liabilities:			
Financial liabilities with fair value equal to book value	5,663,299	-	5,663,299
Bonds payable	2,500,000	-	2,543,697

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 valuation method can be applied to such asset accounts as cash and cash equivalents, margin loans, other receivables (consolidated income tax receivable is not included), overdue receivables (excluding income tax payable and consolidated income tax payable), short-term borrowings, stock deposits, short sale proceeds payable, other payables, stock deposits, deposits-in of securities borrowing & lending, lease payable, and accrued pension liabilities.
- B) Financial assets at fair value through profit or loss – current: the market values of listed stocks are determined by the closing price on the balance sheet date. The fair values of beneficiary certificates are determined by the net asset values on the balance sheet date. The market prices of convertible bonds are determined by the last trading day. The market prices of government bonds are determined by the value on the balance sheet date.
- C) Available-for-sale financial assets – current are the beneficiary securities of financial asset securitization. The fair value is provided by the securities firm.
- D) For held-to-maturity financial assets, the fair value was based on active quoted market price. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique.
- E) The fair values of deposits-out at the balance sheet date were valued at book value since the impact of discount rates is insignificant.
- F) The fair value of corporate bonds is based on the present value of expected cash flow amount. The discount rate is the market interest rate of corporate bonds with the same credit rating.

3) Information of interest rate change risk

The financial assets measured at fair value with interest rate fluctuations are \$633,140 and \$1,080,121 in 2012 and 2011, respectively. The financial liabilities are \$0 and \$2,500,000 in 2012 and 2011, respectively. The financial liability positions with interest rate risk are \$0 and \$109,000, respectively.

4) Information of financial risk

A) Market risk

The financial assets held by the Company includes stocks, open-ended funds, convertible bonds, government bonds and financial debentures. With the exception of unlisted stocks and bond investments in non-active markets, the values of the financial assets held are subject to changes in market rates or prices. In order to manage market risk, the Company only trades with those securities investment trust companies with good reputation.

B) Exchange rate risk

The Company conducts certain businesses that involves other non-functional currencies. Information on non-functional currency assets and liabilities that may be significantly affected by fluctuations in the foreign exchange rate are set forth below:

	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
	<u>Foreign currency</u>	<u>Exchange</u>	<u>Foreign currency</u>	<u>Exchange</u>
	<u>(in thousand)</u>	<u>rate</u>	<u>(in thousand)</u>	<u>rate</u>
<u>Financial assets</u>				
<u>Currency Items</u>				
USD:NTD	\$ 7,283	\$ 28.98	\$ 13,197	30.23
<u>Financial liabilities</u>				
<u>Currency Items</u>				
USD:NTD	7,212	28.98	13,170	30.23

C) Credit risk

- a) The Company engages in pecuniary financing facilities for trading of listed securities. To reduce the credit risk, the Company follows the rules established by the Taiwan Stock Exchange Corp. and the GreTai Securities Market and sets its own internal policies and procedures.
- b) Credit risk occurs when the counterparty of financial instrument transaction defaults. Transaction counterparties are limited to high-credit-quality financial institutions; therefore, the possibility of default by counterparties is remote. The Company has policies that limit the amount of credit exposure to any financial institution based on their credit rating; accordingly, there is no significant credit risk. The maximum loss to the Company is the total contract amount of financial assets mentioned above which have positive fair value at the balance sheet date.

D) Liquidity risk

- a) The Company has adequate operating capital to fulfill all contractual obligations. Thus, there is no significant liquidity risk.

- b) The financial assets held by the Company are all transacted in the active market, with the exception of unlisted stocks, bond investments in non-active market, and held-to-maturity financial assets. Thus, these financial assets can be readily sold at the prices close to their fair value. Therefore, the liquidity risk is not significant.
- c) Due to uncertain transaction terms and different types of financial instruments, the maturity or interest rate of financial assets and financial liabilities usually cannot fully match with each other. If the gap increases, it will likely result to a gain or loss. However, the Company has policies in place to minimize the potential gaps.

E) Cash flow risk arising from interest rate change

The short-term liabilities borrowed by the Company are priced at fair market value. The rate of the short-term liabilities will be affected by a change in market rate.

F) The structure and policy of risk management

In order to manage the risk faced by the Company, internal rules for the day-to-day operations are set, the information system is computerized and a weekly meeting is held by the team members of the risk management. In order to have reliable information, the Company set up a risk management center with other subsidiaries of the group.

11. OTHER DISCLOSURE ITEMS

1) Information about significant transactions

- A. Lending to others: Since the Company engages in providing pecuniary and securities financing facilities for the trading of listed securities, and refinancing to securities firms and other businesses, no disclosure is required.
- B. Endorsements and guarantees for others: None.
- C. Information regarding securities held as of December 31, 2012:

Name of company which holds securities			Relationship between issuer of security and the Company		Ending Balance		
The Company	Category and name of security	Company	Account name	Thousands of Shares	Book value	Percentage of ownership	Market value
The Company	Beneficiary Certificates: Yuantai Emerging Markets ESG Strategy Fd	The management company was an affiliated company controlled by the same company as the Company	Financial assets at fair value through profit or loss - current	595	\$ 6,869	N/A	\$ 6,000
	Hua Nan Investment Grade Fund of Bond Funds	-	"	1,500	15,574	"	15,574
	Shin Kong Flexible Strategy 100	-	"	1,000	9,560	"	9,560
	Shin Kong Chi-Shin Money-Market	-	"	39,925	601,203	"	601,203
					\$ 633,206		\$ 632,337
	Beneficiary Securities:						
	952 Polaris-C	-	Available for sale financial assets - current	-	\$ 79,535	N/A	\$ 79,535
	Listed Stocks:						
	Formosa Plastics	-	Available for sale financial assets - current	1,642	\$ 129,061	N/A	\$ 129,061
	DELTA	-	"	962	102,453	"	102,453
The Company	WPG	-	"	1,428	54,258	"	54,258
	CSC	-	"	1,380	37,754	"	37,754
	FTC	-	"	494	44,859	"	44,859
	CHINATRUST FINANCIAL	-	"	3,289	56,414	"	56,414
	PCSC	-	"	332	51,626	"	51,626
					476,425		476,425
					\$ 555,960		\$ 555,960
	Government Bonds - current						
	A92110	-	Held-to-maturity financial assets - current	-	\$ 100,406	N/A	\$ 200,146
	A97101	-	"	-	199,995	"	200,129
				\$ 300,401		\$ 400,275	
The Company	Government Bonds - non-current						
	A94107	-	Held-to-maturity financial assets - non-current	-	\$ 202,346	N/A	\$ 204,474
	A99105	-	"	-	50,858	"	51,250
					\$ 253,204		\$ 255,724
	Stocks :						
	Taiwan Depository & Clearing Co., Ltd.	-	Financial assets carried at cost - non-current	57,623	\$ 565,330	17.96	\$ -
	Taiwan Futures Exchange Co., Ltd.	-	"	13,929	100,000	5.00	\$ -
					\$ 665,330		\$ -

D. Disposals of real estate exceeding NT\$100,000 or 20 percent of contributed capital :

Acquiring / selling company name	Type and name of marketable security	Financial statement account	Counter-party	Nature of relationship	Beginning balance		Acquisition		Disposal		Ending balance	
					Thousands of Shares / Par value	Amount	Thousands of Shares / Par value	Amount	Thousands of Shares / Par value	Amount	Thousands of Shares / Par value	Amount
The Company	Beneficiary Certificates:											
	Yuanta Wan Tai Bond Fund	Financial assets at fair value through profit or loss - current	-	The management company was an affiliated company controlled by the same company as the company	13,693	\$ 200,000	13,616	\$ 200,000	27,309	\$ 400,095	95	\$ -
	Mirae Asset Solomon Money Market	"	-		33,073	400,000	-	-	33,073	404,224	4,224	-
	Shin Kong Chi-Shin Money-Market Listed Stocks:	"	-		-	-	39,925	600,000	-	-	-	39,925 600,000
	FORMOSA CHEMICALS & FIBRE	Available for sale financial assets -current	-		1,760	156,537	-	-	1,760	120,233	36,304	-

- E. Information on the acquisition of the real estate for which the purchase amount exceeded NT\$100 million or 20% of paid-in capital: None.
F. Information on the disposal of the real estate for which the sale amount exceeded NT\$100 million or 20% of paid-in capital: None.
G. Information regarding related-party purchases and / or sales for which the amount exceeded NT\$100 million or 20% paid-in capital: None.
H. Information regarding receivables from related parties for which the amount exceeded NT\$100 million or 20% of paid-in capital: None.
I. Information regarding trading in derivative financial instruments: None.

2) Information on investees

Not applicable.

3) Disclosure of investments in Mainland China

Not applicable.

12. SEGMENT FINANCIAL INFORMATION

A. General information

The Group operates business only in a single industry. The Chief Operating Decision-Maker(CODM), which allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

B. Measurement of segment information

The CODM assesses the performance of the operating segments based on the profit before tax.

C. Information on segment profit (loss), assets and liabilities

The Group operates business only in a single industry. The segment information provided to the CODM for the reportable segments for the years ended December 31, 2011 and 2010 is as follows:

	Year ended December 31, 2012		Year ended December 31, 2011	
	\$		\$	
Segment revenue from external customers	966,393	1,456,180		
Segment profit before tax	497,371	898,207		
Segment assets	16,245,667	19,740,002		

D. Reconciliation for segment profit (loss), assets and liabilities

The Group operates business only in a single industry. The business operation activities are mainly domestic. Therefore, there is no need for reconciliation.

13. Disclosures relating to the adoption of IFRSs

- 1) Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASS”), relevant interpretations and interpretative bulletins that are ratified by the Financial Supervisory Commission , and the “Rules Governing the Preparation of Financial Statements by Securities Issuers” that are expected to be applicable in 2013.
- 2) The Company discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010:

A. Major contents and status of execution of the Company’s plan for IFRSs adoption:

The Company has formed an IFRSs group headed by the Company’s General Manager, which is responsible for setting up a plan relative to the Company’s transition to IFRSs. The major contents and status of execution of this plan are outlined below:

Working Items for IFRSs Adoption	Status of Execution
1. Formation of an IFRSs group	Completed.
2. Setting up a plan relative to the Company’s transition to IFRSs	Completed.
3. Identification of the differences between current accounting policies and IFRSs	Completed.
4. Identification of consolidated entities under the IFRSs framework	Not applicable (due to only one single reportable segment).
5. Evaluation of the impact of each exemption and option on the Company under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed.
6. Evaluation of needed information system adjustments	Completed.
7. Evaluation of needed internal control adjustments	Completed.
8. Establish IFRSs accounting policies	Completed.

Working Items for IFRSs Adoption	Status of Execution
9. Selection of exemptions and options available under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed.
10. Preparation of statement of financial position on the date of transition to IFRSs	Completed.
11. Preparation of IFRSs comparative financial information for 2012	Expected to be completed in March, 2013.
12. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments	Completed.

B. Material differences and impacts that may arise between current accounting policies used in the preparation of financial statements and IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be used in the preparation of financial statements in the future are outlined below:

The Company uses the IFRSs already ratified currently by the Financial Supervisory Commission and the “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Company’s current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by the Financial Supervisory Commission or relevant interpretations or amendments to the “Rules Governing the Preparation of Financial Statements by Securities Issuers” come in the future.

The impact of material differences identified by the Company that may arise between the current accounting policies used in the preparation of financial statements and the IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be used in the preparation of financial statements in 2013, and the effects of exemptions selected by the Company under IFRS 1 – First-time Adoption of International Financial Reporting Standards (refer to Note 13(3)) are set forth below:

1. Reconciliation for major differences on balance sheet accounts on January 1, 2012:

	ROC GAAP	Effect of transition from ROC GAAP to IFRSs	IFRSs	Remarks
Marginal receivables	\$15,577,359	(\$ 83,650)	\$15,493,709	(1)
Other receivables	478,644	129,486	608,130	(1)&(2)
Current income tax assets	-	22,369	22,369	(2)
Financial assets measured at cost	665,330	(665,330)	-	(3)
Available-for-sale financial assets-non-current	-	3,661,087	3,661,087	(3)
Others	3,018,669	3,719	3,022,388	(4)&(5)
Total assets	\$19,740,002	\$3,067,681	\$ 22,807,683	
Guaranteed price deposits received from securities borrowers	\$ 1,651,043	\$ 13,679	\$ 1,664,722	(1)
Other payables	483,406	22,357	505,763	(1)&(6)
Current income tax liabilities	-	39,162	39,162	(6)
Accrued pension liabilities	111,961	(111,961)	-	(4)
Provision for liabilities—non-current—provision for employee benefits	-	133,836	133,836	(4)
Others	5,957,141	(6,993)	5,950,148	(1)
Total liabilities	\$ 8,203,551	\$ 90,080	\$ 8,293,631	
Retained earnings	\$ 2,305,793	(\$ 18,156)	\$ 2,287,637	(4)
Unrealised gain on valuation of available-for-sale financial assets	(97,643)	2,995,757	2,898,114	(3)
Others	9,328,301	-	9,328,301	
Total shareholders' equity	\$11,536,451	\$ 2,977,601	\$ 14,514,052	

Reasons for reconciliation are outlined below:

- (1) The regular way purchase or sale of financial assets: In place of settlement date accounting, trade date accounting is adopted for credit trading.
- (2) Reclassifying income tax refundable of \$22,369 from 'other receivables' to 'current income tax assets'.
- (3) In accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" before amendment on July 7, 2011, unlisted stocks and emerging stocks held by the Company were measured at cost and recognised as 'financial assets measured at cost'. However, in accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability in the range of reasonable fair value estimates is insignificant for that instrument, or the probabilities of the estimates within the range can be reasonably assessed and used in estimating fair value) should be measured at fair value. Therefore, in accordance with the "Rules

Governing the Preparation of Financial Statements by Securities Issuers” amended on December 22, 2011, the Company designated such financial assets measured at cost as ‘available-for-sale financial assets’ and increased unrealised gain on valuation of available-for-sale financial assets by \$2,995,757 on the date of transition to IFRSs, which was the difference between the fair value on that date and the previous ROC GAAP carrying amount.

- (4) Please refer to the information about employee benefits in Note 13(3).
- (5) Reclassifying assets leased to others and idle assets totalling \$223,517 to ‘investment property’.
- (6) Reclassifying income tax payable of \$39,162 from ‘other payables’ to ‘current income tax liabilities’.

2. Reconciliation for major differences on balance sheet accounts on December 31, 2012:

	ROC GAAP	Effect of transition from ROC GAAP to IFRSs	IFRSs	Remarks
Marginal receivables	\$ 11,657,771		\$11,657,771	
Other receivables	540,988	(26,709)	514,279	(1)
Current income tax assets	-	26,709	26,279	(1)
Financial assets measured at cost	665,330	(665,330)	-	(2)
Available-for-sale financial assets-non-current	-	3,953,518	3,953,518	(2)
Others	3,381,578	(1,224)	3,380,354	(3)&(4)
Total assets	\$16,245,667	\$3,286,964	\$ 19,532,631	
Guaranteed price deposits received from securities borrowers	\$ 1,442,500		\$ 1,442,500	
Other payables	473,292	(88,412)	384,880	(5)
Current income tax liabilities	-	88,462	88,462	(5)&(3)
Accrued pension liabilities	107,197	(107,197)	-	(3)
Provision for liabilities—non-current—provision for employee benefits	-	99,700	99,700	(3)
Others	2,619,404		2,619,404	
Total liabilities	\$ 4,642,393	(\$ 7,447)	\$ 4,634,946	
Retained earnings	\$ 420,989	10,612	\$ 431,601	(3)& (6)
Unrealised gain on valuation of available-for-sale financial assets	(14,343)	3,283,799	3,269,456	(2)& (6)
Others	11,196,628		11,196,628	
Total shareholders’ equity	\$11,603,274	\$3,294,411	\$ 14,897,685	

Reasons for reconciliation are outlined below:

- (1) Reclassifying income tax refundable of \$26,709 from 'other receivables' to 'current income tax assets'.
- (2) Financial assets measured at cost were designated as 'available-for-sale financial assets' and unrealised gain on valuation of available-for-sale financial assets was increased by \$292,431 on the date of transition to IFRSs, which was the difference between the fair value on that date and the previous ROC GAAP carrying amount (see item (3) of reasons for reconciliation for January 1, 2012 listed in (2)1 above).
- (3) In accordance with IAS 19, 'Employee Benefits', pension cost was reduced by \$297 and income tax expense was increased by \$50 for 2012. In addition, in accordance with ROC GAAP, actuarial gain on pension of \$29,075 shall be recognised in current net pension cost using the 'corridor' method; however, the Company elected to recognize this amount immediately in other comprehensive income in accordance with IAS 19, and increased income tax expense by \$4,943 and reduced deferred pension plan assets by \$4,943 (see the information about employee benefits in Note 13(3)).
- (4) Reclassifying assets leased to others of \$211,972 to 'investment property'.
- (5) Reclassifying income tax payable of \$88,412 from 'other payables' to 'current income tax liabilities'.
- (6) In accordance with paragraph 32 of ROC SFAS No. 32, cash dividends received in current year from equity securities investments other than financial assets at fair value through profit or loss shall be recognized as recovery of investment costs. However, the Taiwan version of IFRSs published by Financial Supervisory Commission does not specify the rule on liquidating dividends. Therefore, the Company reclassified cash dividends of \$15,395 received in current year to dividends income and increased loss on disposal of investment by \$11,006.

3. Reconciliation for major differences on income statement accounts for the year ended December 31, 2012:

	ROC GAAP	Effect of transition from ROC GAAP to IFRSs	IFRSs	Remark
Operating revenue	\$966,393	\$ -	\$966,393	
Operating costs	(310,595)	-	(310,595)	
Operating expenses	(250,641)	297	(250,344)	(3)
Operating profit	405,157	-	405,454	
Non-operating revenue and expenses	92,214	4,389	96,603	(6)
Profit before income tax	497,371	-	502,057	
Income tax expense	(76,382)	(50)	(76,432)	(3)
Profit for the period	\$420,989	\$4,636	\$425,625	
Other comprehensive income				
Unrealised gain on valuation of available-for-sale financial assets	\$ -	\$371,342	\$371,342	(2)
Actuarial gain (loss) on defined benefit plan	-	29,075	29,075	(3)
Income tax relating to the components of other comprehensive income	-	(4,943)	(4,943)	(2)&(3)
Other comprehensive income for the period, net of tax	\$ -	\$395,474	\$395,474	
Total comprehensive income for the period	\$420,989	\$400,110	821,099	

Note : please refer to above B. 2.Reconciliation for major differences on balance sheet accounts on December 31, 2012 .

C. The Company has elected the following exemptions in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that are expected to be applicable in 2013:

1. Employee benefits

The Company has elected to recognize all cumulative actuarial gains and losses for all employee benefit plans in ‘retained earnings’ at the opening IFRS balance sheet date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A (P), IAS 19, “Employee Benefits”, based on their prospective amounts for financial periods from the opening IFRS balance sheet date.

2. Designation of previously recognized financial instruments

The Company has elected to designate certain financial assets carried at cost as 'Available-for-sale financial assets' at the opening IFRS balance sheet date.

3. Share-based payment transactions

The Company has elected not to apply the requirements in IFRS 2, "Share-based Payment", retrospectively to equity instruments that were vested arising from share-based payment transactions prior to transition to IFRSs.

The selection of exemptions above may be different from the actual selection at the date of transition to IFRSs due to the issuance of related regulations by competent authorities, changes in economic environment, or changes in the evaluation of the impact of the Company's selection of exemptions.



Yuantan Securities Finance Co., Ltd.

