

TAIWAN STOCK EXCHANGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS

31st DECEMBER 2010 AND 2009

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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

To the Board of Directors and Stockholders of  
Taiwan Stock Exchange Corporation

We have audited the accompanying consolidated balance sheets of Taiwan Stock Exchange Corporation and subsidiaries as of 31st December 2010 and 2009, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of consolidated subsidiaries, which statements reflect total assets of NT\$15,808,159 thousand and NT\$14,517,603 thousand, constituting 17 and 13 percent of the consolidated assets as of 31st December 2010 and 2009, respectively, and total revenues of NT\$2,988,535 thousand and NT\$2,859,752 thousand, both constituting 37 percent, of consolidated revenues for the years then ended. We also did not audit the financial statements of the investees accounted for under the equity method. These long-term equity investments amounted to NT\$53,512 thousand and NT\$102,533 thousand as of 31st December 2010 and 2009, respectively, and their related investment income amounted to NT\$16,972 thousand and NT\$17,008 thousand for the years then ended. These financial statements were audited by other auditors, whose reports thereon were furnished to us, and our opinion, insofar as it relates to the amounts included in the financial statements relative to the consolidated subsidiaries and these long-term investments, is based solely on the reports of the other auditors.

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 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taiwan Stock Exchange Corporation and subsidiaries as of 31st December 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges” and generally accepted accounting principles in the Republic of China.

*PricewaterhouseCoopers, Taiwan*

1st March 2011  
Taipei, Taiwan

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The accompanying 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 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.

**TAIWAN STOCK EXCHANGE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**31st DECEMBER**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

	2010		2009			2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>ASSETS</b>					<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Assets</b>					<b>Current Liabilities</b>				
Cash and cash equivalents (Note 4(1))	\$ 46,658,823	51	\$ 51,822,173	47	Accrued expenses	\$ 1,276,700	1	\$ 1,233,989	1
Financial assets at fair value through profit or loss (Note 4(2))	1,540,401	2	675,302	-	Income tax payable (Note 4(13))	385,486	1	601,033	-
Available-for-sale financial assets (Note 4(3))	5,075,990	5	22,924,293	21	Securities lending and borrowing collateral payable (Note 4(15))	40,722,402	44	62,022,599	56
Held-to-maturity financial assets (Note 4(4))	2,971,632	3	3,250,496	3	Receipts under custody (Note 4(16))	141,973	-	66,039	-
Accounts receivable-net (Notes 4(6) and 5)	719,517	1	718,901	1	Other current liabilities	687,799	1	806,045	1
Interest receivable	148,105	-	146,572	-	Performance bond payable (Note 4(7))	-	-	-	-
Other receivables-net (Note 4(10))	172,098	-	85,268	-	Total Current Liabilities	43,214,360	47	64,729,705	58
Other financial assets-current (Notes 4(16) and 6)	229,991	-	157,229	-	<b>Other Liabilities</b>				
Other current assets (Note 4(13))	58,113	-	63,034	-	Default damages reserve (Note 4(8))	9,787,164	11	9,486,445	9
Performance bond (Note 4(7))	-	-	-	-	Deposits received	45,800	-	49,460	-
Total Current Assets	57,574,670	62	79,843,268	72	Reserve for land value increment tax	44,599	-	44,599	-
<b>Funds and Long-term Investments</b>					Deferred income tax liabilities – noncurrent (Note 4(13))	39,114	-	27,378	-
Held-to-maturity financial assets – noncurrent (Note 4(4))	21,255,529	23	17,939,102	16	Total Other Liabilities	9,916,677	11	9,607,882	9
Financial assets carried at cost – noncurrent (Note 4(5))	951,652	1	951,652	1	Securities Settlement Credit (Note 4(9))	-	-	-	-
Default damages fund (Note 4(8)(9))	9,712,070	11	9,425,956	9	Total Liabilities	53,131,037	58	74,337,587	67
Long-term equity investments accounted for under the equity method (Note 4(10))	53,152	-	102,533	-	<b>Stockholders' Equity</b>				
Total Funds and Long-term Investments	31,972,763	35	28,419,243	26	Capital stock (Note 4(17))				
<b>Property, Plant and Equipment (Note 4(11))</b>					Common stock	5,837,281	6	5,694,908	5
Original Cost					Capital reserve (Note 4(18))	37,682	-	37,682	-
Land	429,941	-	429,941	-	Retained earnings				
Buildings	693,473	1	693,473	1	Legal reserve (Note 4(19))	3,933,324	4	3,733,696	4
Computer equipment	2,821,306	3	2,641,528	2	Special reserve (Note 4(19))	19,849,613	22	18,911,362	17
Other equipment	704,227	1	641,558	1	Unappropriated earnings (Note 4(20))	2,660,919	3	2,016,210	2
Revaluation – land	37,084	-	37,084	-	Other adjustments to Stockholders' Equity				
	4,686,031	5	4,443,584	4	Unrealized gain or loss on financial instruments (Note 4(3))	49,966	-	127,346	-
Less: Accumulated depreciation	( 3,166,279 )	( 3 )	( 2,923,765 )	( 3 )	Minority Interest	6,502,076	7	5,916,464	5
Accumulated impairment	-	-	1,781	-	Total Stockholders' Equity	38,870,861	42	36,437,668	33
Prepayments on equipment	101,612	-	137,293	-	<b>Commitments and Contingent Liabilities (Note 7)</b>				
Total Property, Plant and Equipment	1,621,364	2	1,655,331	1	Significant subsequent events (Note 7)				
<b>Intangible Asset</b>									
Goodwill (Note 1)	169,083	-	169,083	-					
Total Intangible Asset	169,083	-	169,083	-					
<b>Other Assets</b>									
Rental assets	85,657	-	86,111	-					
Operations guarantee deposits (Note 4(12))	300,000	1	290,000	1					
Deferred charges (Note 4(11))	110,718	-	145,982	-					
Refundable deposits and miscellaneous assets	167,643	-	166,237	-					
Total Other Assets	664,018	1	688,330	1					
Securities Settlement Debit (Note 4(9))	-	-	-	-					
<b>TOTAL ASSETS</b>	<b>\$ 92,001,898</b>	<b>100</b>	<b>\$ 110,775,255</b>	<b>100</b>	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 92,001,898</b>	<b>100</b>	<b>\$ 110,775,255</b>	<b>100</b>

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

See report of independent accountants dated 1st March 2011.

TAIWAN STOCK EXCHANGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED 31st DECEMBER  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT BASIC EARNINGS PER SHARE)

	2010		2009	
	Amount	%	Amount	%
Operating revenues				
Trading fees (Notes 4(21) and 5)	\$ 3,309,108	41	\$ 3,444,763	45
Securities recording service fees (Note 5)	977,800	12	993,966	13
Custodial service fees	715,835	9	716,318	9
Market data fees	412,894	5	368,322	5
Listing fees	745,346	9	519,189	7
Securities settlement service fees	451,183	6	412,598	5
Computer and other equipment fees	82,658	1	82,005	1
Data processing fees (Note 5)	195,208	3	182,354	2
Future settlement fees (Note 5)	259,925	3	263,082	4
Others (Note 5)	904,969	11	715,343	9
Total Operating Revenues	8,055,006	100	7,697,940	100
Operating costs-others (Note 4(24))	( 71,392)	( 1)	( 63,034)	( 1)
Operating Gross Profit	7,983,614	99	7,634,906	99
Operating expenses (Note 4(24))				
Personnel (Note 4(14))	( 2,176,537)	( 27)	( 2,150,076)	( 28)
General and administrative (Notes 4(22) and 5)	( 2,588,126)	( 32)	( 2,629,554)	( 34)
Total Operating Expenses	( 4,764,663)	( 59)	( 4,779,630)	( 62)
Operating income	3,218,951	40	2,855,276	37
Non-operating income				
Interest	863,241	11	785,051	10
Equity in net income of investee company (Note 4(10))	16,972	-	17,008	-
Gain on disposal of investments	150,932	2	28,195	-
Other income	39,650	-	42,140	1
Total Non-operating Income	1,070,795	13	872,394	11
Non-operating expenses				
Interest	( 69,114)	( 1)	( 23,614)	-
Impairment loss (Note 4(4)(11))	-	-	( 49,190)	( 1)
Other expenses	( 83,480)	( 1)	( 89,654)	( 1)
Total Non-operating Expenses	( 152,594)	( 2)	( 162,458)	( 2)
Consolidated income before income tax	4,137,152	51	3,565,212	46
Income tax expense (Note 4(13))	( 688,497)	( 8)	( 875,728)	( 11)
Consolidated income after income tax	3,448,655	43	2,689,484	35
Consolidated net income	\$ 3,448,655	43	\$ 2,689,484	35
Attributable to:				
Equity holders of the Company	\$ 2,636,825	33	\$ 1,996,280	26
Minority interest	811,830	10	693,204	9
Total consolidated net income	\$ 3,448,655	43	\$ 2,689,484	35
	Pre tax	After tax	Pre tax	After tax
Basic earnings per share (in dollars) (Note 4(23))				
Equity holders of the Company	\$ 5.70	\$ 4.52	\$ 4.92	\$ 3.42
Minority interest	1.39	1.39	1.19	1.19
Total consolidated net income	\$ 7.09	\$ 5.91	\$ 6.11	\$ 4.61

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated 1st March 2011.

TAIWAN STOCK EXCHANGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED 31st DECEMBER  
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Retained Earnings					Unrealized Gain or Loss on Financial Instruments	Minority Interest	Total
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings			
<u>2009</u>								
Balance at 1st January 2009	\$ 5,556,008	\$ 37,682	\$ 3,533,588	\$ 17,950,847	\$ 2,013,954	(\$ 385,525)	\$ 5,448,927	\$ 34,155,481
Appropriations of 2008 earnings: (Note)								
Legal reserve	-	-	200,108	-	( 200,108)	-	-	-
Special reserve	-	-	-	960,515	( 960,515)	-	-	-
Cash dividends	-	-	-	-	( 694,501)	-	-	( 694,501)
Stock dividends	138,900	-	-	-	( 138,900)	-	-	-
Decrease in minority interest	-	-	-	-	-	-	( 225,667)	( 225,667)
Consolidated net income for 2009	-	-	-	-	1,996,280	-	693,204	2,689,484
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	512,871	-	512,871
Balance at 31st December 2009	<u>\$ 5,694,908</u>	<u>\$ 37,682</u>	<u>\$ 3,733,696</u>	<u>\$ 18,911,362</u>	<u>\$ 2,016,210</u>	<u>\$ 127,346</u>	<u>\$ 5,916,464</u>	<u>\$ 36,437,668</u>
<u>2010</u>								
Balance at 1st January 2010	\$ 5,694,908	\$ 37,682	\$ 3,733,696	\$ 18,911,362	\$ 2,016,210	\$ 127,346	\$ 5,916,464	\$ 36,437,668
Appropriations of 2009 earnings: (Note)								
Legal reserve	-	-	199,628	-	( 199,628)	-	-	-
Special reserve	-	-	-	938,251	( 938,251)	-	-	-
Cash dividends	-	-	-	-	( 711,864)	-	-	( 711,864)
Stock dividends	142,373	-	-	-	( 142,373)	-	-	-
Decrease in minority interest	-	-	-	-	-	-	( 226,218)	( 226,218)
Consolidated net income for 2010	-	-	-	-	2,636,825	-	811,830	3,448,655
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	( 77,380)	-	( 77,380)
Balance at 31st December 2010	<u>\$ 5,837,281</u>	<u>\$ 37,682</u>	<u>\$ 3,933,324</u>	<u>\$ 19,849,613</u>	<u>\$ 2,660,919</u>	<u>\$ 49,966</u>	<u>\$ 6,502,076</u>	<u>\$ 38,870,861</u>

Note: Employees' bonuses of \$96,616 and \$93,866 were deducted from the statement of income of 2009 and 2008, respectively

The accompanying notes are an integral part of these consolidated financial statements.  
 See report of independent accountants dated 1st March 2011.



TAIWAN STOCK EXCHANGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED 31st DECEMBER  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

<u>Cash flows from operating activities</u>	<u>2010</u>	<u>2009</u>
Consolidated net income	\$ 3,448,655	\$ 2,689,484
Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities:		
Gain on disposal of investments	( 150,932)	( 25,466)
Gain on disposal of held-to-maturity financial assets	-	( 507)
Amortization of bond premium	31,473	27,971
(Gain) loss on valuation of financial assets	( 277)	29
Bad debts	1,000	2,163
Impairment loss	-	49,190
Provision for default damages	300,719	164,201
Equity in net income of investee companies-net of cash dividends received	( 1,666)	( 3,218)
Depreciation	340,903	453,660
Loss on obsolescence and disposal of property, plant and equipment	878	2,914
Amortization	133,537	150,646
Changes in assets and liabilities:		
Increase in financial assets at fair value through profit or loss	( 864,822)	( 32,932)
Increase in accounts receivable-net	( 1,616)	( 296,263)
( Increase) decrease in interest receivable	( 1,533)	95
Increase in other receivables	( 36,143)	( 606)
Increase in other financial assets-current	( 71,287)	( 13,519)
Decrease in deferred income tax assets	12,036	6,304
Decrease in other current assets-other	3,146	376
Increase in accrued expenses	42,711	38,147
( Decrease) increase in income tax payable	( 215,547)	427,167
( Decrease) increase in securities lending and borrowing collateral payable	( 21,300,197)	61,180,182
Increase in receipts under custody	75,934	27,666
( Decrease) increase in other current liabilities	( 114,350)	94,644
Net cash (used in) provided by operating activities	( 18,367,378)	64,942,328

(Continued)

TAIWAN STOCK EXCHANGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED 31st DECEMBER  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2010	2009
<u>Cash flows from investing activities</u>		
Decrease (increase) in available-for sale financial assets-net	\$ 17,964,360	(\$ 18,621,481)
Increase in held-to-maturity financial assets-net	( 3,111,541)	( 176,933)
Increase in default damages fund	( 286,114)	( 247,433)
Acquisition of property, plant and equipment	( 366,250)	( 227,339)
Proceeds from disposal of property, plant and equipment	136	52
Increase in operations guarantee deposits	( 10,000)	( 10,000)
Increase in deferred charges	( 43,415)	( 30,337)
(Increase) decrease in refundable deposits-net	( 1,406)	20,533
Net cash used in investing activities	( 14,145,770)	( 19,293,118)
<u>Cash flows from financing activities</u>		
(Decrease) increase in deposits received-net	( 3,660)	12,191
Cash dividends paid	( 711,864)	( 694,501)
Cash dividends paid-minority interest	( 226,218)	( 225,667)
Net cash used in financing activities	( 941,742)	( 907,977)
Net (decrease) increase in cash and cash equivalents	( 5,163,350)	44,741,233
Cash and cash equivalents at beginning of year	51,822,173	7,080,940
Cash and cash equivalents at end of year	\$ 46,658,823	\$ 51,822,173
<u>Supplemental disclosures of cash flow information</u>		
Cash paid during the year for:		
Interest	\$ 65,084	\$ 14,664
Income tax	\$ 888,446	\$ 441,823

The accompanying notes are an integral part of these consolidated financial statements.  
See report of independent accountants dated 1st March 2011.



**TAIWAN STOCK EXCHANGE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**31st DECEMBER 2010 AND 2009**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,**  
**EXCEPT AS OTHERWISE INDICATED)**

**1. HISTORY AND ORGANIZATION**

- 1) Taiwan Stock Exchange Corporation (the Company) was established in December 1961. The main activities of the Company are providing location and facilities for trading and settlement of securities, and other services as approved by the Competent Authority. As of 31st December 2010, the Company had 591 employees.

On 29th November 2001, the Competent Authority authorized the Company to continue existing in its current corporate form for the next ten years until a change into a membership-type organization is approved.

- 2) Taiwan Depository & Clearing Corporation (TDCC) and Taiwan-Ca Inc. (TWCA) were consolidated subsidiaries in 2010. The consolidated subsidiaries are as follows:

A. TDCC

(A)TDCC was established in October 1989. It provides the following services: (a) custody of securities certificates; (b) maintenance of records of securities settled or pledged; (c) electronic processing of records for securities; (d) service in connection with book-entry distribution of securities; (e) book-entry registration of noncertificated securities; (f) depository and clearing of short-term bills; and (g) other services approved by the Competent Authority. As of 31st December 2010, TDCC had 504 employees.

(B)In the stockholders' meeting on 8th February 2006, the stockholders of Taiwan Securities Central Depository Co., Ltd. (TSCD) decided that TSCD would merge with Debt Instruments Depository and Clearing Co., Ltd. Taiwan (DIDC). TSCD, the surviving entity, was renamed as Taiwan Depository & Clearing Corporation (TDCC).

(C)The Company's ownership percentage as of 31st December 2010 and 2009 is both 50.43%.

## B. TWCA

(A) Taiwan-Ca Inc. (TWCA) was 30.25% owned by the Company as of 31st December 2010 and 2009. Although the Company does not directly or indirectly hold more than 50% of TWCA's voting shares, the Company and TDCC together hold 5 of the 9 Board of Directors' seats after the Company increased its investment in TWCA in 2006. As the Company exercises significant control over TWCA, TWCA was accounted for as a subsidiary of the Company since 2006.

(B) TWCA was incorporated on 17th December 1999 and is mainly engaged in internet certification, retail and wholesale of information software and related services. As of 31st December 2010, TWCA had 53 employees.

- 3) Non-consolidated subsidiaries: None.
- 4) Adjustment and approach for difference of accounting period of subsidiaries: None.
- 5) Specific risk of operation of overseas subordinate companies: None.
- 6) Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.
- 7) Contents of subsidiaries' securities issued by the parent company: None.
- 8) Information on convertible bonds and common stock issued by subsidiaries: None.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) were prepared in accordance with the "Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges" and generally accepted accounting principles in the Republic of China. A summary of the significant accounting policies of the Group are as follows:

- 1) Principles in preparing consolidated financial statements
  - A. The Company prepared consolidated financial statements in accordance with R.O.C. SFAS No. 7 "Accounting for Consolidated Financial Statements", which defines the consolidated subsidiaries as an investee company wherein the Company owns at least 50% voting rights by itself or with other investors, or wherein the Company has significant control.

- B. All material transactions between the Company and the consolidated subsidiaries are eliminated in the consolidated financial statements.
- 2) Classification of current and non-current
- A. Assets that meet one of the following conditions are regarded as current; otherwise they are classified as non-current:
    - (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;
    - (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 conditions are regarded as current; otherwise they are classified as non-current.
    - (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;
    - (D) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.
- 3) Cash equivalents
- Cash equivalents are short-term and highly liquid investments which are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value resulting from fluctuations in interest rates.
- 4) Financial instruments at fair value through profit or loss
- A. Financial instruments at fair value through profit or loss consist of any financial assets and liabilities held for trading and that are designated on initial recognition as those to be measured at fair value changes in profit or loss. The instruments are initially recognized at fair value, with transaction

costs expensed as incurred. After initial recognition, the instruments are remeasured at fair value, with the changes in fair value recognized as current profit or loss. Cash dividends received are accounted for as current revenue. A regular purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

B. Fair values are determined as follows: beneficiary certificates (open-end funds) - net asset values as of the balance sheet date.

5) Available-for-sale financial assets

A. Available-for-sale financial assets are recognized and derecognized using settlement date accounting. They are recognized initially at their fair value plus transaction costs.

B. The financial assets are remeasured and stated at fair value, and the gain or loss is recognized in equity. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on latest quoted fair prices at the balance sheet date. The fair value of open-end and balanced 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, the cumulative loss that had been recognized directly in equity should be removed and recognized in profit or loss. Impairment losses recognized previously in profit or loss for an investment in an equity instrument shall not be reversed through profit or loss, and if, subsequently, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

6) Held-to-maturity financial assets

A. Held to-maturity financial assets are recognized and derecognized using settlement date accounting. They are recognized initially at their fair value plus transaction costs.

B. The financial assets are measured at amortized cost.

C. If there is any objective evidence that financial assets are impaired, the impairment loss is recognized in profit or loss. If, subsequently, the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss.

- 7) Financial assets carried at cost
- A. The financial assets are recognized and derecognized using settlement date accounting. They are recognized initially at their fair value plus transaction costs.
  - B. If there is any objective evidence that the financial asset is impaired, the impairment loss shall be recognized in profit or loss. Such impairment loss cannot be reversed.
- 8) Allowance for doubtful accounts
- Allowance for doubtful accounts is provided based on the evaluation of the collectibility of accounts receivable and other receivables, taking into account the aging analysis of receivables.
- 9) Long-term equity investments accounted for under the equity method
- Long-term investments in which the Company owns at least 20% of the investee company's voting rights or can exercise significant influence over the management of the investee company are accounted for by the equity method.
- 10) Property, plant and equipment
- A. With the exception of certain fixed assets revalued based on government regulations, fixed assets are stated at cost.
  - B. For the Company, depreciation is provided on the straight-line method using the estimated useful lives of the assets except for computer equipment. Depreciation of computer equipment is provided using the fixed-percentage-on-declining balance method over 3 years. The estimated useful lives are 55 years for buildings and 3 to 17 years for other property and equipment.  
  
Depreciation of TDCC is provided using the fixed-percentage-on-declining balance method except for buildings, which are depreciated on a straight-line method over 55 years. The estimated useful lives are 55 years for buildings and 3 to 15 years for other property and equipment. Depreciation of TWCA's property, plant and equipment is provided under the straight-line method with the estimated useful lives for major assets ranging from 3 to 5 years. Salvage value of fixed assets still in use are depreciated based on the new estimated remaining useful lives of the assets.
  - C. Upon revaluation of properties, any increment is added to the cost of properties. Reserve for land value incremental tax, if any, is recognized, and the resulting net increment is credited to capital surplus.

D. Significant renewals or betterments are capitalized. Maintenance and repairs are charged to expense as incurred. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current results of operations.

11) Goodwill

Investment premiums for the cost of acquisitions exceeding the identified net assets of the merged company, representing goodwill, are no longer amortized but tested annually for impairment.

12) Deferred charges

Computer software is amortized using the fixed-percentage-on-declining balance method over 3 years, except for the cost of computer software of TWCA which is amortized on a straight-line basis over 1 to 5 years.

13) Retirement plan

Monthly contributions to the employees' pension funds are charged to current expense and pension funds will be used exclusively to pay for pension obligation. Any payments made in excess of the fund are charged to current expense.

14) Default damages reserve

Monthly provision for a default damages reserve which is determined based on the fixed ratio of the revenue derived from trading fees and related securities settlement fees are charged to expense according to related regulations. If a securities company defaults its obligations, the related expenses should be paid from its securities settlement fund. If its fund is insufficient, any shortfall will be paid from the default damages fund. The default damages reserve is debited for this shortfall and credited when the shortfall is refunded by the defaulting company.

15) Impairment of non-financial assets

The Group 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. The recoverable amount of goodwill shall be evaluated periodically. Impairment loss will be recognized whenever there is indication that the recoverable amount of goodwill is less than its respective carrying amount. Impairment loss of goodwill recognized in prior years is not

recoverable in the following years.

16) Recognition of revenue and cost

- A. Revenue is recognized when the earning process is substantially completed and the payment is realized or realizable. Costs and expenses are recognized as incurred.
- B. TWCA's revenue is mainly derived from systems setup and installation and electronic certification services. Revenue derived from systems setup and installation services is recognized based on the timing of completion. Revenue from electronic certification services is recognized mainly for the services provided during the effective period of certification in which TWCA is obliged to provide the related services. The associated cost incurred is included in operating costs.

17) Income tax

- A. According to R.O.C. SFAS No. 22 "Accounting for income taxes", provision for income tax includes deferred income tax on items reported in different periods for tax and financial reporting purposes. Deferred income tax consequences attributable to deductible temporary differences, taxable temporary differences and investment tax credits are recognized as deferred income tax assets or liabilities. The deferred income tax assets and liabilities are classified as current and non-current according to the nature of the underlying assets and liabilities and the timing of their expected realization. A valuation allowance is provided for deferred income tax assets to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior year's income tax liability is included in the current year's income tax expense.
- B. According to R.O.C. SFAS No. 12 "Accounting for income tax credit", income tax credits are recognized during the period the tax credits arise. However, if the amount is significant and there is a high uncertainty on the amount of tax credit, the expense or benefit of the Company is recognized when it is approved by the tax authority.
- C. Interest revenue on short-term notes and bills whose issue date is on or before December 31, 2009 is taxed separately, and the taxation is included in current year's income tax expense; interest revenue on short-term notes and bills whose issue date is on or after January 1, 2010 and on beneficiary certificates for 2010 is subject to profit-seeking enterprise income tax.



D. The additional 10% corporate income tax on undistributed earnings derived on or after 1st January 1998 is included in the income tax expense in the following year when shareholders approved the resolution to retain the earnings.

18) Employees' bonuses

Effective 1st January 2008, pursuant to EITF 96-052 of the R.O.C. Accounting Research and Development Foundation, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration" dated 16th March 2007, the cost of employees' bonuses is accounted for as an expense and liability, provided that such recognition is required under legal or constructive obligation and the amount can be estimated reasonably. However, if the accrued amount for employees' bonuses is significantly different from the actual distributed amount resolved by the stockholders at their annual stockholders' meeting subsequently, the difference shall be recognized as gain or loss in the following year.

19) Use of estimates

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

20) Settlement date accounting

If an entity recognizes financial assets using settlement date accounting, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognized for assets carried at cost or amortized cost. For financial asset or financial liability classified as at fair value through profit or loss, the change in fair value is recognized in profit or loss. For available-for-sale financial asset, the change in fair value is recognized directly in equity.

**3. EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

None.

#### 4. DETAILS OF SIGNIFICANT ACCOUNTS

##### 1) Cash and cash equivalents

	31st December	
	2010	2009
Cash		
Checking and savings deposits	\$ 17,565,855	\$ 5,306,626
Time deposits	24,924,272	13,409,586
Negotiable certificates of deposits	800,000	-
Cash equivalents		
Commercial paper	3,058,696	33,105,961
Government bonds under repurchase agreement	310,000	-
	<u>\$ 46,658,823</u>	<u>\$ 51,822,173</u>
Annual interest rates of time deposits	<u>0.18%~1.135%</u>	<u>0.11%~1.135%</u>
Annual interest rates of negotiable certificates of deposits	<u>0.85%~1.00%</u>	<u>-</u>
Annual interest rates of commercial paper	<u>0.43%~0.45%</u>	<u>0.19%~0.25%</u>
Annual interest rates of government bonds under repurchase agreement	<u>0.43%</u>	<u>-</u>

Time deposits as of 31st December 2010 and 2009 were due within one year.

##### 2) Financial instruments at fair value through profit or loss

	31st December	
	2010	2009
<u>Financial assets held for trading</u>		
Beneficiary certificates	<u>\$ 1,540,401</u>	<u>\$ 675,302</u>

##### 3) Available-for-sale financial assets

	31st December	
	2010	2009
Current items:		
Beneficiary certificates	\$ 5,026,024	\$ 22,796,947
Valuation adjustment	49,966	127,346
	<u>\$ 5,075,990</u>	<u>\$ 22,924,293</u>

4) Held-to-maturity financial assets

	<u>31st December</u>	
	<u>2010</u>	<u>2009</u>
Current items:		
Financial bonds	\$ 1,433,386	\$ 1,243,518
Corporate bonds	1,118,550	1,432,230
Government bonds	300,186	153,073
Beneficiary securities	<u>119,510</u>	<u>456,298</u>
	2,971,632	3,285,119
Accumulated impairment	<u>-</u>	<u>( 34,623)</u>
	<u>\$ 2,971,632</u>	<u>\$ 3,250,496</u>
Non-current items:		
Financial bonds	\$ 11,061,444	\$ 9,602,081
Corporate bonds	7,610,738	5,092,556
Government bonds	1,865,346	2,186,724
Beneficiary securities	519,117	858,979
Commercial papers under repurchase agreement	<u>198,884</u>	<u>198,762</u>
	<u>\$ 21,255,529</u>	<u>\$ 17,939,102</u>

Due to the default on part of the asset pools, after assessment the Company recognized impairment loss of \$34,623 and \$37,808 on one beneficiary security for the year ended December 31, 2009 and for the six months ended June 30, 2010. As of December 31, 2010, this beneficiary security had been disposed.

5) Financial assets carried at cost

	<u>31st December</u>	
	<u>2010</u>	<u>2009</u>
Unlisted stocks	\$ 1,068,528	\$ 1,068,528
Accumulated impairment	<u>( 116,876)</u>	<u>( 116,876)</u>
	<u>\$ 951,652</u>	<u>\$ 951,652</u>

As the financial assets held by the Group are not quoted in active markets and their fair value cannot be measured reliably, they are carried at cost.

6) Accounts receivable - net

	<u>31st December</u>	
	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 724,206	\$ 724,921
Less: allowance for doubtful accounts	( 4,689)	( 6,020)
	<u>\$ 719,517</u>	<u>\$ 718,901</u>

7) Performance bond/Performance bond payable

According to related regulations, the warrant issuer shall pay the performance bond or bank draft to the Company after completion of all necessary arrangements for listing with the Company to protect investors' risk to execute the warrants. Upon the expiration of the issuance period (usually within 1 year), the performance bonds or bank drafts shall be returned to the issuers. As the Company has no claim on the fund and its responsibility is restricted to safekeeping, the performance bonds or bank drafts are not recorded as assets of the Company. However, in order to lift warrant issuers' capital utilization efficiency, effective January 1, 2009, the regulation governing performance bond submission upon warrants issuance was eliminated in accordance with the Competent Authority No. 0970068974 bulletin. As of 31st December 2010 and 2009, the Company has received performance bonds totaling \$0 and \$5,000, respectively, and bank drafts totaling \$0 and \$5,000, respectively.

8) Default damages fund/Default damages reserve

A. The Company, as required by Securities and Exchange Law and related regulations, makes cash contributions to a default damages fund (DDF) at certain percentages of trading fees within 15 days at the end of each quarter (Dr. default damages fund; Cr. cash), except for the first draft of \$50,000. However, the Company stops making cash contributions to DDF when the accumulated amount of the DDF is equal to or greater than the total amount of the Company's capital. In addition, following the regulations of the Competent Authority No. 00480 bulletin (1986), equivalent amount of default damages reserve has been recontributed starting from 1986. Additionally, in accordance with No. 46 of "Taiwan Stock Exchange Corporation Securities Lending and Borrowing Regulations" and the Competent Authority No. 0920129756 bulletin (2003), the Company contributes 3% of Securities Lending and Borrowing (SLB) service fees as default damages fund and default damages reserve.

- B. As the accumulated amount of the DDF has exceeded the total amount of the Company's capital, the Company has stopped making contributions to the DDF and default damages reserve since November 2006. In addition, in accordance with the Competent Authority No. 0950002968 bulletin(2006), the Company additionally includes 5% of trading fees in the annual budget to participate in public welfare activities, such as capital market development and investor educational training. If the relevant expenditures on the public welfare activities do not reach 5% of trading fees, the Company still has to contribute the remaining amount to the default damages fund and provide for the same amount of default damages reserve pursuant to the Securities and Exchange Law and related regulations and laws. However, in accordance with the Competent Authority No. 0980026755 bulletin (2009), the Company has stopped budgeting for public welfare activities and contributed 5% of trading fees to the default damages fund within 15 days after the end of every quarter since January 1, 2010.
- C. In September 1996, the Competent Authority approved a common fund, the Securities Settlement Fund ("SSF"), to be used in settling defaults by securities companies. The Company established the special settlement fund ("SF") with an initial funding of \$1,000,000. If the Company's DDF exceeds \$1,000,000, the excess should be contributed to the SF until the contribution reaches \$2,000,000. As of 31st December 2010 and 2009, the balance of the SF was \$3,000,000 for both years.
- D. TDCC recognized monthly reserve for default damages equal to 5% of the revenues derived from settlement of securities, recording of securities transactions and custody of securities and contributes cash to the DDF, equal to the above reserve for default damages, within 15 days after the end of each quarter until the accumulated fund balance equals TDCC's paid in capital.

E: The movements of the DDF and default damages reserve are as follows:

(A) Default damages fund (DDF)

	<u>For the years ended 31st December</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 6,425,956	\$ 6,178,523
Contributions		
Based on the amounts of trading fees	152,798	131,429
5% of securities settlement, securities recording and custodial service fees	130,777	114,379
3% of securities lending and borrowing service fees	<u>2,539</u>	<u>1,625</u>
	6,712,070	6,425,956
Settlement fund (SF)	<u>3,000,000</u>	<u>3,000,000</u>
Balance, end of year	<u>\$ 9,712,070</u>	<u>\$ 9,425,956</u>

(B) Default damages reserve

	<u>For the years ended 31st December</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 9,486,445	\$ 9,322,244
Contributions		
Based on the amount of trading fees	168,449	33,139
5% of securities settlement, securities recording and custodial service fees	129,682	129,994
3% of securities lending and borrowing service fees	<u>2,588</u>	<u>1,068</u>
Balance, end of year	<u>\$ 9,787,164</u>	<u>\$ 9,486,445</u>

F. As of 31st December 2010, the DDF is invested in time deposits.

9) Securities settlement fund

A. As required by the Competent Authority, securities companies make cash deposits to the Securities Settlement Fund ("SSF"), which is administered by a committee and deposited in the name of the Company, and this account is distinguished from the others owned by the Company. Under the Securities and Exchange Law, the SSF can only be (a) invested in government bonds; (b) deposited in banks or in the postal savings system; or (c) invested in other instruments as approved by the Competent Authority. The income on the

SSF, less related expenses and taxes, is distributed to the securities companies every six months.

- B. The obligation of a defaulting securities company and expenses incurred in meeting obligations are settled using the balance of the defaulting company's contributions to the SSF and any undistributed income thereon. If the obligation of the defaulting company still cannot be fully settled, the SF portion in excess of \$1,000,000 will be used. If any obligation remains, then the initial SF of \$1,000,000 plus the contributions to the SSF by other securities companies will be used proportionately.
- C. As required by the Competent Authority, the year-end balances of the asset and liability accounts and related income of the SSF which are recorded as "securities settlement debit" and "securities settlement credit," with equal amounts, are netted in the balance sheets.
- D. As of 31st December 2010 and 2009, the balances of the SSF were \$5,150,031 and \$4,986,546, respectively, and the balances of the SF were \$3,000,000 for both years. The funds are invested in time deposits pursuant to the regulations. In addition, as of 31st December 2010, the Company had entered into a loan agreement with financial institutions in the amount of \$11,800,000 and US\$10,000,000 and provided time deposit of \$2,000,000 to financial institutions as collateral for the need of Securities firms' application of the advance settlements for finalizing the funds to the Company and emergent revolving fund due to Securities firms violation of settlement obligation or natural disaster. As of 31st December 2010, the loan amount had not been drawn down. The foregoing time deposit was recognized as DDF of \$750,000, SF of \$550,000, and SSF of \$700,000.

10) Long-term equity investments accounted for under the equity method

A. Details of long-term equity investments

Investee company	Overall ownership percentage as of 31st December	31st December	
		2010	2009
Equity method:			
Taiwan Ratings Co., Ltd.			
(TRC)	39.00%	\$ 53,512	\$ 102,533

Taiwan Ratings Corp. made capital reductions in 2010. The capital reduction ratio was 65%. The Company and TDCC will receive proceeds from return of



share capital from TRC in the amount of \$25,987 and \$24,700, respectively, which were recognized as other receivables.

B. The investment income on long-term equity investments accounted for under the equity method is as follows:

Investee company	For the years ended 31st December	
	2010	2009
TRC	\$ 16,972	\$ 17,008

C. The investment income was based on the investee company's financial statements which were audited by other independent accountants.

11) Property, plant and equipment

Item	31st December 2010				
	Original Cost	Revaluation	Accumulated Depreciation	Accumulated Impairment	Net Book Value
Land	\$ 429,941	\$ 37,084	\$ -	\$ -	\$ 467,025
Buildings	693,473	-	( 234,816)	-	458,657
Computer equipment	2,821,306	-	( 2,440,711)	-	380,595
Other equipment	704,227	-	( 490,752)	-	213,475
Prepayments for equipments	101,612	-	-	-	101,612
	<u>\$4,750,559</u>	<u>\$ 37,084</u>	<u>(\$3,166,279)</u>	<u>\$ -</u>	<u>\$ 1,621,364</u>

  

Item	31st December 2009				
	Original Cost	Revaluation	Accumulated Depreciation	Accumulated Impairment	Net Book Value
Land	\$ 429,941	\$ 37,084	\$ -	\$ -	\$ 467,025
Buildings	693,473	-	( 222,023)	-	471,450
Computer equipment	2,641,528	-	( 2,275,536)	( 1,781)	364,211
Other equipment	641,558	-	( 426,206)	-	215,352
Prepayments for equipments	137,293	-	-	-	137,293
	<u>\$4,543,793</u>	<u>\$ 37,084</u>	<u>(\$2,923,765)</u>	<u>(\$ 1,781)</u>	<u>\$ 1,655,331</u>

TDCC intended to scrap idle information equipment and computer software (shown as other assets - deferred expenses) in 2010. Their book value was \$1,781 and \$12,786, respectively. Thus, impairment loss totaling \$14,567 was provided for year 2009 for the scrapping of such assets.

12) Operations guarantee deposits

Guarantee deposits consist of financial bonds with face value of \$300,000 and \$290,000 as of 31st December 2010 and 2009, respectively, that are deposited with the Central Bank of China.

13) Income tax

Income tax expense and income tax payable are reconciled as follows:

	For the years ended 31st December	
	2010	2009
Income tax expense	\$ 688,497	\$ 875,728
Effect of deferred income tax-net	( 12,036)	( 6,304)
Under provision of prior year's income tax	( 5,840)	( 8,985)
Prepaid income tax	( 357,102)	( 336,515)
Income tax on separately taxed interest income	( 7)	( 11,058)
Income tax payable	<u>\$ 313,512</u>	<u>\$ 512,866</u>

A. As of 31st December 2010 and 2009, the deferred income tax assets (liabilities) were as follows:

	31st December	
	2010	2009
Total deferred income tax assets	\$ 100,222	\$ 118,159
Valuation allowance	\$ 98,696	\$ 133,051
Total deferred income tax liabilities	<u>\$ 40,157</u>	<u>\$ 31,703</u>

B. As of 31st December 2010 and 2009, details of deferred income tax assets (liabilities) were as follows:

Item	2010		2009	
	Amount	Tax Effect	Amount	Tax Effect
Current:				
Employees' welfare	\$ 2,772	\$ 471	\$ 3,917	\$ 783
Others	265	45	195	39
		516		822
Less: valuation allowance		( 33)		( 39)
		483		783
Noncurrent:				
Contributions to retirement fund	477,111	81,109	430,752	86,150
Equity in investees' net losses	80,298	13,651	118,540	23,708
Goodwill	( 236,218)	( 40,157)	( 158,515)	( 31,703)
Others	29,093	4,946	37,396	7,479
		59,549		85,634
Less: valuation allowance		( 98,663)		( 113,012)
		( 39,114)		( 27,378)
Total		<u>(\$ 38,631)</u>		<u>(\$ 26,595)</u>

C. As of December 31, 2010, losses of TWCA available to be carried forward were as follow:

<u>Year in which losses incurred</u>	<u>Unused loss carry forwards</u>	<u>Final year losses can be carried forward</u>
2004(Approved)	\$ 26,711	2014
2005(Approved)	<u>53,587</u>	2015
	<u>\$ 80,298</u>	

D. The 10% additional income tax expense on the undistributed earnings for the years ended 31st December 2010 and 2009 is \$9,186 and \$8,504, respectively.

E. As of 31st December 2010, the income tax returns of the Company through year 2008, except years 2006 and 2007, have been assessed and approved by the Tax Authorities. The income tax returns of TDCC through 2005 and TWCA through 2008 have been assessed and approved by the tax authorities

F. The Company's income tax returns for the years ended 31st December 2003, 2004 and 2005 have been approved by the Tax Authority in June 2005, December 2006 and March 2008, respectively, and additional income tax of \$6,324, \$45,092 and \$37,968 was assessed for the years 2003, 2004 and 2005, respectively, due to adjustment of pre-paid withholding tax on bond interest and adjustment of interest income on amortization of the premiums and discounts of bond investment. The Company has filed an appeal for reassessment with the Tax Authority to contest the Tax Authority's decision. In November 2008, the Company and the Tax Authority had reached a reconciliation that the Company is only required to pay 20% of the additional pre-paid withholding tax on bond interest assessed previously. However, in December 2008, the Tax Authority decided to keep its original ruling as to the adjustment of interest income on amortization of the premiums and discounts of bond investment for the Company after reassessment. Thus, the Company filed an administrative appeal, but it was dismissed in May 2009. Subsequently, the Company filed an administrative litigation, but it was also dismissed in October 2009. At present, the Company is still appealing. Even though half of the additional income tax has been paid, for conservatism purposes, the Company had provided for additional income tax liabilities of \$35,598 as of 31st December 2010.

G. On TDCC's 2004 and 2005 tax return, an additional income tax of \$6,522 and \$9,376 was assessed for the years 2004 and 2005, respectively, by the Tax Authority, arising from the amortization of premiums/discounts on long-term investments in bonds, recognition of prior interest deduction and tax credits. TDCC had paid the above additional income taxes. However,

TDCC claimed that the assessment of additional income taxes of \$6,052 and \$6,528 for amortization of premiums/ discounts on long-term investments in bonds for the years 2004 and 2005, respectively, by the Tax Authority were unreasonable and has filed for an appeal.

14) Retirement and severance plans

A. Based on the Company's internal regulations for employee hiring and management, both the Company and its employees contribute monthly to the workers' pension fund and employees' retirement fund, respectively. The Company contributes based on certain percentages of salary expenses to the common retirement fund. These funds are administered by the independent pension fund committee and employees' retirement fund committee, respectively. The contributed amounts are deposited to the Bank of Taiwan and other financial institutions under the name of the respective committees. Employees who have retired and resigned will receive benefits from the relevant pension fund, retirement fund, and common fund.

The details of changes in the pension fund and retirement funds are as follows:

	<u>For the years ended 31st December</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 2,260,885	\$ 2,082,828
Contributions	140,041	149,865
Interest income	38,351	46,608
Payments of benefits	( 118,189)	( 18,614)
Balance, end of year	<u>\$ 2,321,088</u>	<u>\$ 2,260,885</u>

B. TDCC contributes monthly 13.5% and 1.5% of the employees' monthly salaries to the Company-contributed fund and the common fund, respectively. The employees contribute 3% of their monthly salaries to the employee-contributed fund. All of the retirement funds are administered by a non-managerial fund administration committee and managerial retirement plan committee and the funds are deposited in the committees' names with financial institutions. When employees retire, the benefit is paid from the interest and the principal of both the Company-contributed fund and the employee-contributed fund. An additional 20% will be paid from the common fund if retirement or termination is due to work-related injury.

TDCC's pension expenses for 2010 and 2009 were \$123,995 and \$109,352, respectively. As of 31st December 2010 and 2009, the balances of the funds amounted to \$1,448,571 and \$1,330,318, respectively.

C. TWCA has a pension plan covering all regular employees. Under the pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement.

Pursuant to the Labor Standards Law, TWCA contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with the Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. The contributions are recognized as current expenses.

Effective 1st July 2005, TWCA established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act. The new employees are all covered under the New Plan, whereas the existing employees have the option to be covered under the New Plan. Under the New Plan, TWCA contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The contributions are recognized as current expenses.

TWCA has an employee long-service bonus plan. Under the plan, TWCA provides monthly a certain percentage of the employees' monthly salaries and wages as reserve for severance pay.

#### 15) Securities lending and borrowing collateral payable

The Company has provided securities lending and borrowing service since June 2003. The borrower is required to deposit collaterals based on a certain percentage (the stipulated collateral ratio) of borrowed securities daily market prices to the Company. In addition, individual collateral maintenance ratio of each transaction will be calculated on a daily basis, and further collateral will be required if the maintenance ratio is below the collateral ratio. As of 31st December 2010 and 2009, the Company has received collaterals consisting of cash amounting to \$40,722,402 and \$62,022,599 (Note a), bank draft of \$384,677 and \$573,553 (Note b), and securities of \$32,772,447 and \$13,822,050, respectively (Notes b and c).

Note a: Interest will be added based on the bank's current interest rate on refund of cash collateral.

Note b: Bank draft, securities and collaterals are to be returned to borrowers upon the completion of the transaction. Accordingly, these are not reflected as assets of the Company. The Company is only responsible

for the custodianship of these assets.

Note c: Securities are revalued according to their closing prices at 31st December 2010 and 2009. After the completion of application for securities lending and borrowing service, the borrowers' securities are under the custodianship of TDCC. Upon the rendering of service, the securities are turned over to the Company as collateral. However, effective from April 1, 2010, the securities are turned over to the Company as collateral before the rendering of service, as long as the Company has ensured that the borrowers' designated securities are correct.

#### 16) Receipts under custody

Since August 2006, TDCC has provided receipt and payment services involving offshore mutual funds. The accounting for receipt of this business are debited to other financial assets-current and credited to receipts under custody upon receiving and reverses it when payment has occurred.

#### 17) Capital stock

- A. In accordance with the resolution adopted at the stockholders' meeting on 1st June 2009, the Company issued common stock by capitalizing the unappropriated retained earnings and legal reserve totaling 13,890 thousand shares. The registration of this capital increase was approved by the Competent Authority.
- B. In accordance with the resolution adopted at the stockholders' meeting on 18th June 2010, the Company issued common stock by capitalizing the unappropriated retained earnings and legal reserve totaling 14,237 thousand shares. The registration of this capital increase was approved by the Competent Authority.
- C. As of 31st December 2010, the Company's authorized, issued and outstanding common stock consisted of 583,728 thousand shares at \$10 dollars par value per share.
- D. Under an amendment to article 128 of the Securities and Exchange Law promulgated on 19th July 2000, the Company's common stocks can only be sold to authorized securities companies starting 15th January 2001.

#### 18) Capital reserve

The R.O.C. Company Law requires that capital reserve shall be exclusively used to cover accumulated deficit or to increase capital and shall not be used for any other purpose. However, all or part of capital reserve arising from paid-in capital

in excess of par value on issuance of common stock and donations can be capitalized once a year, provided that the Company has no accumulated deficit.

19) Legal reserve / Special reserve

- A. According to the ROC Company Law, the annual net income should be used initially to cover any accumulated deficit; thereafter 10% of the annual net income should be set aside as legal reserve until it has reached 100% of contributed capital. Under the ROC Company law, the legal reserve shall be exclusively used to cover accumulated deficit or, if the balance of reserve exceeds 50% of contributed capital, to increase capital not exceeding 50% of reserve balance and shall not be used for any other purpose except under other acts. A company shall not pay dividends or bonuses, if there is no surplus earnings provided, however, that the aggregate of its legal reserve exceeds fifty percent of its paid-in capital.
- B. Special reserve, as required by regulations of the Securities and Futures Bureau (SFB), of at most 80% of the annual net income was determined by the Competent Authority, and special reserve as resolved by the stockholders can only be used, upon the Competent Authority's approval, to offset deficit or transferred to capital.

20) Unappropriated earnings

- A. The annual net income of the Company and TDCC should be used initially to cover any accumulated deficit. 10% of the annual net income should be set aside as legal reserve. Specific percentage of the annual net income, as determined by the Competent Authority, should be set aside as special reserve. The remaining balance can be distributed as follows:
  - a) Between 1% to 12% for employees' bonus following the resolution by the Board of Directors.
  - b) The remaining amount can be distributed by a resolution passed by a meeting of the Board of Directors and approved at the stockholders' meeting.
- B. Under TWCA's Articles of Incorporation, the current years' earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder, after making a provision for the special reserve, plus the accumulated retained earnings of prior years are appropriated as follows after distributing preferred dividends of 6% and common stock dividends of at most 6%:



- a) 90% as stockholders' bonus
- b) 10% as employees' bonus

The annual interest rate on preferred dividends is 6%. In the event that the earnings available are insufficient for distributing preferred dividends, the preferred dividends should be paid first before the distribution of dividends on common stock, and the remaining undistributed portion shall be deferred to the following year's dividends distribution and not subject to the restriction of 6% each year.

- C. As approved by the stockholders during their meeting, cash dividends declared per share for 2010 and 2009 was \$1.25 dollar for both years, and the stock dividend per share for 2010 and 2009 was \$0.25 dollars for both years.
- D. The amount of employees' bonus for 2010 was estimated at \$113,776 based on a certain percentage of the Company's distributable earnings which was prescribed by the Company's Articles of Incorporation after taking into account the 2010 budgeted net income and the historical employees' bonus distribution experience, surplus reserve and other factors, and was recognized as operating expense for that year. However, if the estimated amount is different from the amount resolved by the stockholders subsequently, the difference shall be recognized as gain or loss for 2011. Employees' bonus of 2009 as resolved by the stockholders was lower than that amount recognized in the 2009 financial statements. The difference of \$19,113 had been adjusted in the statement of income of 2010.
- E. The actual creditable tax ratio of distributed earnings in 2009 was 27.05%. As of 31st December 2010, the imputation tax credit account balance was \$195,888 and the estimated creditable tax ratio was 13.41%. As of 31st December 2010, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were \$156 and \$2,660,763, respectively.
- F. TDCC's actual creditable tax ratio of distributed earnings for cash dividends in 2009 were 33.63%. As of 31st December 2010, the imputation tax credit account balance of TDCC was \$275,411, and the estimated creditable tax ratio was 23.33%. As of 31st December 2010, TDCC's undistributed earnings derived before and after the adoption of the imputation tax system were \$0 and \$1,838,042, respectively.

#### 21) Trading fees

Trading fees mainly represent fees collected for the use of the Company's facilities for trading and settlement of securities. The fees are computed as a

percentage of the value of the transactions of securities traded and the rate is 0.000065 per dollar for dealers and brokers. After reaching an agreement with Taiwan Securities Association, which was approved by the Board of Directors of the Company and the Competent Authority in No. 0950156625 bulletin (14th December 2006), the rate had been reduced by 12% during the time that the Company stopped to make cash contributions to the DDF.

22) Expense of investors' protection

In accordance with the regulations of the "Securities and Futures Investors Protection Law", the Company contributes 5% of monthly trading fees to Securities and Futures Investors Protection Center as a protection fund.

23) Earnings per common share

	For the year ended 31st December 2010				
	Amount		Outstanding shares at the end of the year (in thousands)	Earnings per common share	
	Before income tax	After income tax		Before income tax	After income tax
Continuing operating income	\$ 3,325,322	\$ 2,636,825	<u>583,728</u>	\$ 5.70	\$ 4.52
Minority interest income	<u>811,830</u>	<u>811,830</u>		<u>1.39</u>	<u>1.39</u>
Total consolidated net income	<u>\$ 4,137,152</u>	<u>\$ 3,448,655</u>		<u>\$ 7.09</u>	<u>\$ 5.91</u>

	For the year ended 31st December 2009				
	Amount		Outstanding shares at the end of the year (in thousands)	Earnings per common share	
	Before income tax	After income tax		Before income tax	After income tax
Continuing operating income	\$ 2,872,008	\$ 1,996,280	<u>583,728</u>	\$ 4.92	\$ 3.42
Minority interest income	<u>693,204</u>	<u>693,204</u>		<u>1.19</u>	<u>1.19</u>
Total consolidated net income	<u>\$ 3,565,212</u>	<u>\$ 2,689,484</u>		<u>\$ 6.11</u>	<u>\$ 4.61</u>

The number of shares outstanding for the year ended 31st December 2009 was retroactively adjusted in accordance with the ratio of capital increase. The basic earnings per share before and after income tax in 2009 were reduced from \$5.04 and \$3.51 to \$4.92 and \$3.42, respectively.

24) Personnel, depreciation and amortization expenses

The Group's personnel, depreciation and amortization expenses are as follows:

	<u>For the year ended 31st December 2010</u>		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses			
Salaries	\$ 40,592	\$ 1,859,156	\$ 1,899,748
Insurance	-	101,987	101,987
Pension	-	294,255	294,255
Others	585	19,319	19,904
Depreciation	7,703	333,200	340,903
Amortization	4,108	129,429	133,537

	<u>For the year ended 31st December 2009</u>		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses			
Salaries	\$ 30,392	\$ 1,852,406	\$ 1,882,798
Insurance	-	94,429	94,429
Pension	-	277,801	277,801
Others	512	18,869	19,381
Depreciation	8,056	445,604	453,660
Amortization	248	150,398	150,646

**5. RELATED PARTY TRANSACTIONS**

1) Names of related parties and the relationship with the Company

<u>Names of Related Parties</u>	<u>Relationship with the Company</u>
Taiwan Futures Exchange (TFE)	The Company and TDCC are directors of TFE
Gre Tai Securities Market (OTC)	President of the Company and TDCC are directors of OTC
Securities and Futures Investors Protection Center (SFIPC)	Vice President of the Company is a director of SFIPC
Securities and Futures Institute (SFI)	President of the Company is a director of SFI
Accounting Research and Development Foundation (ARDF)	Chairman of the Company is a director of ARDF

<u>Names of Related Parties</u>	<u>Relationship with the Company</u>
Taipei Financial Center Corporation (TFCC)	The Company is a supervisor of TFCC
Land Bank of Taiwan Co., Ltd.	An institutional director of the Company
Fubon Securities Finance Co., Ltd. (FB)	An institutional director of the Company and TDCC (Note 1)
Yuanta Securities Co., Ltd. (YCPS)	An institutional director of the Company and TDCC (Note 3)
Bank of Taiwan Co., Ltd.	An institutional director of the Company
First Commercial Bank Co., Ltd.	An institutional supervisor of the Company (Note 2)
Jih Sun Securities Co., Ltd. (JS)	An institutional supervisor of the Company (Note 2) and an institutional director of TDCC (Note 3)
Yuanta Securities Finance Co., Ltd	An institutional director of TDCC
KGI Securities Co., Ltd.(KGI)	An institutional director of TDCC(Note 1)
SinoPac Securities Co., Ltd. (SPS)	An institutional supervisor of TDCC
Financial Information Service Co., Ltd. (FISC)	An institutional supervisor and an institutional director of TWCA
HiTRUST Inc.	TWCA is an investee of HiTRUST Inc. accounted for under the equity method

Note 1: Became a director of the Company on August 25, 2010

Note 2: Resigned on June 30, 2010

Note 3: Resigned on August 24, 2010

2) Significant transactions and balances with related parties

A. Trading fees

	<u>For the years ended 31st December</u>			
	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of trading fees</u>	<u>Amount</u>	<u>% of trading fees</u>
YCPS	\$ 361,981	11	\$ 401,687	12
FB	204,496	6	211,462	6
JS	63,415	2	153,936	4
Others	74,256	2	105,518	3
	<u>\$ 704,148</u>	<u>21</u>	<u>\$ 867,603</u>	<u>25</u>

Terms are at arms-length.

B. Securities recording service fees

	For the years ended 31st December			
	2010		2009	
	Amount	% of Securities recording service fees	Amount	% of Securities recording service fees
YCPS	\$ 61,517	6	\$ 120,584	12
SPS	48,915	5	49,224	5
KGI	36,462	4	-	-
FB	29,488	3	-	-
JS	22,976	2	45,166	5
	<u>\$ 199,358</u>	<u>20</u>	<u>\$ 214,974</u>	<u>22</u>

Terms are at arms-length.

C. Data processing fees

	For the years ended 31st December			
	2010		2009	
	Amount	% of data processing fees	Amount	% of data processing fees
OTC	\$ 190,393	98	\$ 176,854	97

According to the agreement signed by the Company and OTC in June 2000, the Company receives data processing fees from OTC based on 25% of OTC's business service revenue.

D. Future settlement fees

	For the years ended 31st December			
	2010		2009	
	Amount	% of future settlement fees	Amount	% of future settlement fees
TFE	\$ 259,925	100	\$ 263,082	100

Terms are at arms-length.

E. License fees (part of operating revenue-others)

	For the years ended 31st December			
	2010		2009	
	Amount	% of license fees	Amount	% of license fees
TFE	\$ 162,804	90	\$ 144,271	86

According to the agreement signed by the Company and TFE, the Company authorizes TFE to use the Taiwan Stock Exchange Capitalization Weighted Stock Indices (TAIEX) as the objects of index futures contracts and index options contracts. TFE should pay the Company monthly royalties for the TAIEX use based on monthly trading volume of the above contracts multiplied by agreed-upon royalty for each contract.

F. Securities settlement service fees (part of operating revenue-others)

	For the years ended 31st December			
	2010		2009	
	Amount	% of securities settlement service fees	Amount	% of securities settlement service fees
OTC	\$ 168,202	100	\$ 151,504	100

Terms are at arms-length.

G. Rental and administrative expense (included in operating expenses)

	For the years ended 31st December			
	2010		2009	
	Amount	% of rental and administrative expense	Amount	% of rental and administrative expense
TFCC	\$ 155,836	77	\$ 138,340	50

H. Advertisement and public welfare expense (part of operating expenses)

	For the years ended 31st December			
	2010		2009	
	Amount	% of advertisement and public welfare expenses	Amount	% of advertisement and public welfare expenses
SFI	\$ 15,296	1	\$ 63,281	2

I. Expense of investors' protection

	For the years ended 31st December			
	2010		2009	
	Amount	% of Expense of investors' protection	Amount	% of Expense of investors' protection
SFIPC	\$ 165,455	100	\$ 172,238	100

J. Accounts receivable

	31st December			
	2010		2009	
	Amount	% of accounts receivable	Amount	% of accounts receivable
YCPS	\$ 43,409	6	\$ 56,662	8
TFE	35,154	5	31,922	4
FB	34,101	5	24,446	3
OTC	33,700	5	50,140	7
KGI	10,987	2	-	-
Others	13,654	2	45,089	6
	\$ 171,005	25	\$ 208,259	28

K. In order to promote the financial statements filing system, the Company paid a total of \$23,000 to ARDF in 2010 as the operating funds of its XBRL committee.

**6. PLEDGED ASSETS**

As of December 31, 2010 and 2009, the carrying amounts of TWCA's pledged assets were as follows:

Assets	Purpose	31st December	
		2010	2009
Time deposit	Provisional seizure guarantees	\$ 1,475	\$ -

**7. COMMITMENTS AND CONTINGENT LIABILITIES**

1) As of 31st December 2010, the Company leased certain offices. The total future minimum lease payments under these operating lease agreements were as follows:

Year	Amount
2011	\$ 179,262
2012	168,349
2013	157,097
2014	155,806
2015	155,806
2016~2020 (The present value of \$712,773) (Note)	766,409
	\$ 1,582,369



Note: Starting the sixth year, the present value of lease payments and administrative expense was calculated by "Chunghwa Post Co., Ltd." based on the time deposit rate for one-year (0.91%).

- 2) For purpose of building a new computer center, the Company signed a contract with Chunghwa Telecom Co., Ltd. in December, 2010 to purchase its land in the amount of \$647,717. Under the contract, the Company had paid \$64,772 and \$259,087 in December, 2010 and February, 2011, respectively.
- 3) As of 31st December 2010, TDCC was under renewable operating lease contracts with other companies. The total future minimum lease payments under these operating lease agreements were as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 78,976
2012	72,547
2013	<u>67,006</u>
	<u>\$ 218,529</u>

- 4) As of 31st December 2010, TWCA was under renewable operating lease contracts with other companies. The total future minimum lease payments under these operating lease agreements were as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 7,921
2012	7,849
2013	<u>1,296</u>
	<u>\$ 17,066</u>

- 5) As of 31st December 2009, TDCC has custody of stocks, beneficiary certificates, warrants and convertible bonds with aggregate par value of about \$10,377,445,032 domestic bonds with aggregate par value of about \$1,876,563,912, international bonds with aggregate par value of about \$8,499,835 and short-term bills with aggregate par value of about \$758,356,376.
- 6) TWCA entered into a renewal agreement with Cybertrust Hong Kong Limited for Cybertrust certificate premium in the amount of US \$400,000 dollars (NT\$13,080) with the contract period from 1st July 2007 to 30th June 2010. TWCA paid the full contract amount in 2007, which was recognized under "Deferred charges" and is amortised to "Operating Cost" over three years effective 1st July 2007. An amount of \$2,180 and \$4,360 had been accounted for as operating cost in 2010 and 2009, respectively. TWCA entered into a renewal agreement with Verizon Taiwan Co., Ltd for OmniRoot certificate premium in the amount of \$9,500 with the contract period from 30th June 2010 to 30th June 2013.

## 8. OTHERS

### 1) The fair values of the financial instruments

	31st December 2010		
	Book value	Fair value	
		Quotation in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with book value equal to fair value	\$ 47,928,534	\$ -	\$ 47,928,534
Financial assets at fair value through profit or loss	1,540,401	1,540,401	-
Available-for-sale financial assets	5,075,990	5,075,990	-
Held-to-maturity financial assets	24,227,161	16,229,537	8,356,449
Financial assets carried at cost	951,652	-	-
Liabilities			
Financial liabilities with book value equal to fair value	42,141,075	-	42,141,075

	31st December 2009		
	Book value	Fair value	
		Quotation in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with book value equal to fair value	\$ 52,930,143	\$ -	\$ 52,930,143
Financial assets at fair value through profit or loss	675,302	675,302	-
Available-for-sale financial assets	22,924,293	22,924,293	-
Held-to-maturity financial assets	21,189,598	8,984,115	12,391,096
Financial assets carried at cost	951,652	-	-
Liabilities			
Financial liabilities with book value equal to fair value	63,322,627	-	63,923,660

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

- A. The fair values of short-term instruments were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, accounts receivable, interest receivable, income tax receivable and the current liability accounts, excluding income tax payable and other current liabilities.

- B. For financial assets at fair value through profit or loss, fair value is best determined at quoted market prices. If quoted market prices are not available, fair values are based on estimates using indirect data and appropriate valuation methodologies. The valuation techniques incorporate estimates and assumptions that are consistent with prevailing market conditions.
  - C. For available-for-sale instruments, the market value is regarded as the fair value.
  - D. For held-to-maturity instruments, the quoted price is regarded as the fair value, if it is readily and regularly available from an active market. If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique.
- 2) As of 31st December 2010 and 2009, the financial assets with cash flow risk due to the change of interest amounted to \$36,184,289 and \$14,519,599, respectively, and the financial liabilities with cash flow risk due to the change of interest amounted to \$40,722,402 and \$62,022,599, respectively.
- 3) For the years ended 31st December 2010 and 2009, total interest income for financial assets and financial liabilities that are not at fair value through profit or loss amounted to \$668,554 and \$560,671, respectively. Total interest expense for financial assets and financial liabilities that are not at fair value through profit or loss amounted to \$69,114 and \$23,614, respectively. For available-for-sale financial assets, the amount of unrealized gain recognized directly in equity as of 31st, December 2010 and 2009 were \$49,966, and \$127,346, respectively.
- 4) Procedure of financial risk control
- A. The Company's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.
  - B. Risk management is carried out by a central financial department in accordance with the policies approved by the Board of Directors. The central financial department identifies and evaluates a variety of financial instruments, the procedure of the transaction, and transaction parties. Moreover, the central financial department regularly proposes recommendations and reviews the business performance. The internal auditor is in charge of conducting the audit of the business function.

C.TDCC considers the risk, duration, and the economic environment of the invested financial instruments periodically and reallocates and controls the investments to manage the market and liquidity risk. TDCC also examines counterparties' creditworthiness to manage its credit risk periodically.

5) Information of material financial risk

A. Market risk

(1) Exchange rate risk

The Company has operations involving several non-functional currencies that are influenced by exchange rate fluctuations. The Company's foreign-denominated assets and liabilities having significant exchange rate fluctuations are as follows (expressed in thousands of dollars):

	<u>31st December 2010</u>			<u>31st December 2009</u>		
	<u>Foreign currency</u>	<u>Rate</u>	<u>NT amount</u>	<u>Foreign currency</u>	<u>Rate</u>	<u>NT amount</u>
<u>Financial assets</u>						
<u>Currency</u>						
USD	\$467,666	29.13	\$13,623,111	\$858	31.99	\$27,447
<u>Financial liabilities</u>						
<u>Currency</u>						
USD	\$465,867	29.13	\$13,570,706	-	-	-

(2) Price risk

- (a) The Company invests in available-for-sale financial assets, which are traded in active markets and influenced by the variation of the market price to reduce its market risk.
- (b) The fair value of the bond funds TDCC invested in will fluctuate with the changes in the funds' net asset values. Bonds and securities, which have fixed interest rates, amounted to \$6,211,752 and \$6,634,049 as of 31st December 2010 and 2009, respectively. Their fair values will fluctuate with the changes in market interest rates. However, TDCC classified the bonds as held-to-maturity financial assets, which gain interest throughout their maturity period and will not generate gains or losses from fair value fluctuations. The future cash flow on floating-interest-rate instruments, with fair values that will fluctuate with the changes in market interest rates but with no market risk, amounted to

\$400,000 and \$600,000 as of 31st December 2010 and 2009, respectively.

#### B. Credit risk

- a) The Company's policy requires that all transactions be conducted with counterparties that meet the specified credit rating requirement. As the counterparties are all well-known domestic financial institutions with good credit standing, defaults by the counterparties are not expected to occur. Thus, the possibility that credit risk will arise is remote. As for transaction objects, the default on financial assets investment objects held by the Company might cause the Company's losses. However, the Company controls such risk by setting transaction ceiling and assessing their credit condition strictly. Thus, the Company expects no significant credit risk would arise.
- b) TDCC is exposed to credit risk from counterparties' default on contracts. The related maximum potential loss is the carrying value of the assets as of the balance sheet date.

#### C. Liquidity risk

- a) The Company invests in financial securities, which are traded in active markets and can be readily converted into certain amount of cash that approximate their fair values. The liquidity risk exposure is low.
- b) Although the Company holds financial assets carried at cost which are not traded in active markets, these assets represent a small percentage of the Company's assets and the Company has adequate working capital. Therefore, no significant liquidity risk is expected to arise.
- c) The bonds and bond funds TDCC invested in have an active market and, except for held-to-maturity financial assets, are expected to be easily sold at prices approximating their fair value. The liquidity risk is low.

#### D. Cash flow interest rate risk

The Company has adequate working capital, so the risk in cash flow interest rate would be effectively reduced.

#### 6) Financial information on custodian and clearing services for short-term notes

The balance sheet and statement of income for the custodian and clearing services provided by TDCC for short-term notes are set forth below:

TAIWAN DEPOSITORY & CLEARING CORPORATION - DEPOSITORY AND CLEARING OF SHORT-TERM BILLS

SHEET 1

BALANCE SHEET

31st DECEMBER 2010 and 2009

(In Thousands of New Taiwan Dollars)

ASSETS	31 <sup>st</sup> December 2010		31 <sup>st</sup> December 2009		LIABILITIES AND STOCKHOLDERS' EQUITY	31 <sup>st</sup> December 2010		31 <sup>st</sup> December 2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash	\$ 2,780	-	\$ 4,668	1	Accrued expenses	\$ 51,183	7	\$ 49,517	8
Notes and accounts receivable	50,060	7	50,365	8	Income tax payable	5,262	3	6,569	1
Other current assets	10,633	2	7,906	1	Other current liabilities	20,660	1	35,138	5
Total current assets	63,473	9	62,939	10	Total liabilities	77,105	11	91,224	14
<b>PROPERTIES</b>					<b>STOCKHOLDERS' EQUITY</b>				
Cost					Appropriated working capital	500,000	73	500,000	78
Computers	154,064	23	184,627	29	Retained earnings	105,561	16	51,471	8
Miscellaneous equipment	6,297	1	5,675	1	Total stockholders' equity	605,561	89	551,471	86
Leasehold improvements	543	-	542	-					
Total cost	160,904	24	190,844	30					
Less - accumulated depreciation									
Computers	142,772	21	161,625	25					
Miscellaneous equipment	4,714	1	3,845	1					
Leasehold improvements	444	-	386	-					
Total accumulated depreciation	147,930	22	165,856	26					
Less - accumulated impairment	-	-	1,700	-					
Net properties	12,974	2	23,288	4					
<b>OTHER ASSETS</b>									
Refundable deposits	93,462	14	92,957	14					
Deferred charges	3,873	-	30,734	5					
Others	508,884	75	432,777	67					
Total other assets	606,219	89	556,468	86					
<b>TOTAL ASSETS</b>	<b>\$ 682,666</b>	<b>100</b>	<b>\$ 642,695</b>	<b>100</b>	<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 682,666</b>	<b>100</b>	<b>\$ 642,695</b>	<b>100</b>

**TAIWAN DEPOSITORY & CLEARING CORPORATION - DEPOSITORY AND  
CLEARING OF SHORT-TERM BILLS**

**STATEMENT OF INCOME  
FOR THE YEARS ENDED 31st DECEMBER 2010 AND 2009  
(In Thousands of New Taiwan Dollars)**

	2010		2009	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Bills clearing and settlement	\$ 348,117	95	\$ 329,967	95
Others	17,593	5	17,277	5
Total operating revenues	365,170	100	347,244	100
<b>OPERATING EXPENSES</b>				
Personnel	( 106,091)	( 29)	( 104,837)	( 30)
General and administrative	( 140,608)	( 38)	( 167,909)	( 49)
Total operating expenses	( 246,699)	( 67)	( 272,746)	( 79)
<b>OPERATING REVENUES AND GAINS</b>	<b>119,011</b>	<b>33</b>	<b>74,498</b>	<b>21</b>
<b>NON-OPERATING REVENUES</b>				
Interest	8,167	2	8,601	3
Others	4	-	-	-
Total non-operating revenues	8,171	2	8,601	3
<b>NON-OPERATING EXPENSES</b>				
Impairment loss	-	-	( 14,471)	4
<b>INCOME BEFORE INCOME TAX</b>	<b>127,182</b>	<b>35</b>	<b>68,628</b>	<b>20</b>
<b>INCOME TAX EXPENSE</b>	<b>( 21,621)</b>	<b>( 6)</b>	<b>( 17,157)</b>	<b>( 5)</b>
<b>NET INCOME</b>	<b>\$ 105,561</b>	<b>29</b>	<b>\$ 51,471</b>	<b>15</b>

## 9. ADDITIONAL DISCLOSURES

### A. Related information of significant transactions

In accordance with the "Criteria Governing Preparation of Financial Reports by Company -- Type Stock Exchanges", the Group's related information of significant transactions are as follows:

- a) Lending to others: None.
- b) Endorsements and guarantees for others: None.
- c) Marketable Securities at 31st December 2010:

#### (1) Financial instruments at fair value through profit or loss-current

<u>Investor</u>	<u>Name of the securities</u>	<u>Units/Shares (in thousand)</u>	<u>Rate</u>	<u>Book value</u>	<u>Market value or net worth per share (in dollars)</u>	<u>Total amount</u>	<u>Amount of Securities pledged</u>
	Financial assets held for trading						
TDCC	Mega Diamond Bond Fund	33,385	-	\$ 400,000	\$ 11.9829	\$ 400,050	None
"	Capital Income Fund	6,467	-	100,000	15.4633	100,003	"
"	Yuanta Wan Tai Bond Fund	5,485	-	79,601	14.5150	79,612	"
"	Fubon Chi-Hsiang Fund	8,040	-	121,011	15.0528	121,023	"
"	Hua Nan QiLin Bond Fund	34,773	-	400,000	11.5074	400,149	"
"	NITC Bond Fund	2,178	-	372,322	170.9840	372,361	"
"	NITC Taiwan Bond Fund	1,857	-	27,200	14.6462	27,203	"
TWCA	UPAMC James Bond Fund	998	-	16,000	16.0317	16,000	"
"	Fuh-Hwa Bond Fund	1,731	-	24,000	13.8648	24,000	"
				1,540,134		\$ 1,540,401	
	Valuation adjustment			267			
	Total			\$ 1,540,401			



## (2) Available-for-sale financial assets-current

Investor	Name of the securities	Due Date	Units/Shares (in thousand)	Rate	Book value	Market value or net worth per share (in dollars)	Total amount	Amount of Securities pledged
TSEC	Beneficiary Certificates							
"	Grand Cathay Balance Fund	-	3,201	-	\$ 81,919	\$ 25.5900	\$ 81,919	None
"	Grand Cathay Balance 2 Fund	-	3,158	-	82,245	26.0400	82,245	"
"	Grand Cathay Securities Bond Fund	-	7,500	-	100,000	13.3783	100,338	"
"	UPAMC James Bond Fund	-	2,796	-	50,000	17.8800	50,000	"
"	PCA Balanced	-	2,615	-	51,076	19.5300	51,076	"
"	IBT 1699 Bond Fund	-	46,555	-	600,000	12.9426	602,536	"
"	Yuanta Duo Fu Equity Fund	-	1,034	-	45,930	44.4100	45,930	"
"	Yuanta Mainstream Equity Fund	-	3,999	-	82,013	20.5100	82,013	"
"	Yuanta Wan Tai Bond Fund	-	34,562	-	500,000	14.5150	501,669	"
"	Cathay Taiwan Quantitative Fund	-	3,784	-	39,394	10.4100	39,394	"
"	Capital OTC Fund	-	1,024	-	50,000	48.8500	50,000	"
"	FK Templeton Glo. Smaller Companies Fund	-	1,929	-	50,000	25.9200	50,000	"
"	JF (Taiwan) Micro Fund	-	2,220	-	45,407	20.4500	45,407	"
"	JF (Taiwan) Balanced Fund	-	3,090	-	65,190	21.1000	65,190	"
"	JP Morgan Taiwan Global Focus Fund	-	17,282	-	145,000	8.3900	145,000	"
"	Diversified Quantitative Balance Fund	-	25,041	-	300,000	12.0158	300,881	"
"	Fubon Taiwan Strategy 1 ETF Private Equity Fund	-	39,461	-	400,000	11.1800	441,171	"
"	Polaris PMAX ETF Private Equity Fund	-	25,000	-	250,000	9.8000	245,000	"
"	NITC Taiwan Bond Fund	-	9,630	-	140,000	14.6462	141,045	"
"	Shinkong Chi-Shin Fund	-	6,753	-	100,000	14.8599	100,345	"
"	JF (Taiwan) Bond Fund	-	38,042	-	600,000	15.8204	601,839	"
"	PCA Well Pool Fund	-	38,519	-	500,000	13.0255	501,726	"
"	Mega Diamond Bond Fund	-	33,409	-	397,850	11.9829	400,339	"
"	Prudential Financial Small&Medium Capital Fund	-	1,397	-	50,000	35.8000	50,000	"
"	Prudential Financial Bond Fund	-	13,216	-	200,000	15.1801	200,625	"
"	PineBridge Taiwan Bond Fund	-	7,954	-	100,000	13.2089	100,302	"
					5,026,024		\$ 5,075,990	
	Valuation adjustment				49,966			
	Total				\$ 5,075,990			

## (3) Held-to-maturity financial assets-current

Investor	Name of the Securities	Due Date	Face value	Rate	Book value	Amount of Securities Pledged
Financial bonds						
TSEC	95 Fu Hwa Bank 1	2011.08.24	\$ 200,000	2.550%	\$ 200,000	None
"	Industrial Bank of Taiwan 95 1st subordinate Classs Financial	2011.01.23	150,000	2.500%	150,000	"
"	Bank of Communications 20th-1st 5-year Financial Bond	2011.03.07	32,200	2.770%	32,144	"
"	Mega International 97-6 Subordinate Classes Financial Bond	2011.06.26	300,000	0.710% Note 1	300,000	"
"	Bank SinoPac 94 1st Subordinate Classes Financial Bond	2011.06.13	100,000	0.989% Note 2	100,000	"
TDCC	95 Fu Hwa Bank 1	2011.08.24	150,000	2.550%	150,021	"
"	94Industrial Bank	2011.06.01	150,000	2.500%	149,962	"
"	95Industrial Bank	2011.01.23	150,000	2.500%	150,011	"
"	93 Shanghai commercial 4	2011.11.26	200,000	2.900%	201,248	"
					<u>1,433,386</u>	
Note 1 : Based on 90-day commercial paper interest rate plus 0.2%..						
Note 2 : Based on 180-day commercial paper interest rate plus 0.35%.						
TSEC	Formosa Petrochemical Co. 95-1	2011.04.28	100,000	2.070%	99,924	None
"	Taipower 90 1rd Corporate Bond	2011.05.25	25,000	2.260%	25,428	"
"	Taipower 95 3rd Corporate Bond	2011.11.15	200,000	2.060%	200,032	"
TDCC	Taipower 97 4A Corporate Bond	2011.07.21	200,000	3.700%	200,371	"
"	Taipower 97 3A Corporate Bond	2011.06.16	200,000	2.420%	200,646	"
"	Taipower 95 3A Corporate Bond	2011.11.15	140,000	2.080%	140,406	"
"	Taipower 97 5A Corporate Bond	2011.10.31	200,000	2.500%	201,548	"
"	Taipower 95 1A Corporate Bond	2011.05.22	50,000	1.850%	50,195	"
					<u>1,118,550</u>	
Government bonds						
TSEC	90 Jia 1 Bond	2011.01.09	47,000	3.002%	47,022	None
TDCC	95 Jia 1 Bond	2011.01.06	100,000	1.750%	100,000	"
"	86 Jiao Jian Jia 9 Bond	2011.08.23	150,000	7.100%	153,164	"
					<u>300,186</u>	
Beneficiary securities						
TSEC	94 E. Sun bond 1C CBO-A	2011.01.19	50,000	2.350%	49,990	None
"	Chailease 96 Securitization Trust Cretificate	2011.11.24	69,521	3.005%	69,520	"
					<u>119,510</u>	
Total held-to-maturity financial assets-current					<u>\$ 2,971,632</u>	

## (4)Held-to-maturity financial assets-noncurrent

Investor	Name of the securities	Due date	Face value	Rate	Book value	Amount of Securities pledged
TSEC	Financial bonds					
"	Bank of Communications 94 19th- 21st Subordinate Classes Financial Bond	2012.05.23	\$ 200,000	2.07%	\$ 199,870	None
"	Yuanta Bank 95 year second issue of first cis-position finance debt	2012.12.22	150,000	2.36%	150,384	"
"	Yuanta Bank 95 year second issue of first cis-position finance debt	2012.12.22	100,000	2.50%	99,999	"
"	China Development Industrial Bank 96-1 Financial Bond (G11262)	2012.02.05	300,000	2.50%	298,775	"
"	First Bank stripped Subordinate Classes Financial Bond	2015.06.23	300,000	2.95%	301,785	"
"	Shanghai Commercial 97-2 Subordinate Classes Financial Bond	2015.12.26	200,000	3.05%	200,000	"
"	Land Bank 97-2 Subordinate Classes Financial Bond	2015.12.29	300,000	2.80%	300,000	"
"	Chinatrust 97-3 Subordinate Classes Financial Bond	2015.04.25	200,000	3.10%	200,000	"
"	Yuanta Unsecured Subordinated Bank Debentures 99-1	2017.06.10	300,000	2.30%	300,000	"
"	Taipei Fubon Subordinated Bank Debentures 96-1	2013.06.28	200,000	2.90%	200,000	"
"	Taipei Fubon Subordinated Bank Debentures 98-2	2016.12.22	300,000	2.20%	300,000	"
"	Taishin Bank 94 4th Subordinate Classes Financial Bond	2017.06.06	130,000	2.70% Note 1	130,000	"
"	Taishin Bank 94 4th Subordinate Classes Financial Bond	2017.06.06	100,000	1.76% Note 2	100,000	"
"	Bank SinoPac 97-1 Subordinate Classes Financial Bond	2013.09.17	200,000	3.05%	200,000	"
"	Bank SinoPac 97-3 Subordinate Classes Financial Bond	2014.09.09	100,000	1.45% Note 3	100,000	"
"	Bank SinoPac 98-1 Subordinate Classes Financial Bond	2016.04.29	200,000	2.80%	200,000	"
"	E.Sun 94 1st-3rd Subordinate Classes Financial Bond	2012.10.19	150,000	2.73%	150,000	"
"	E.Sun Bank 97-1 Subordinate Classes Financial Bond	2015.10.24	300,000	3.15%	300,000	"
"	E.Sun Bank 98-2 Subordinate Classes Financial Bond	2014.09.05	300,000	2.15%	300,000	"
"	E.Sun Bank 98-3 Subordinate Classes Financial Bond	2016.04.03	300,000	2.50%	300,000	"
"	E.Sun Bank 99-1 Subordinate Classes Financial Bond	2017.05.28	400,000	2.20%	400,000	"
"	Mega International 97-9 Subordinate Classes Financial Bond	2015.12.23	300,000	3.00%	300,000	"
"	Taiwan Agribank 98-1 Subordinate Classes Financial Bond(G13102)	2014.11.08	200,000	2.30%	200,000	"
"	Tcb-Bank 95 1st Subordinate Class A Financial Bond	2013.04.24	237,000	1.29% Note 4	237,000	"
"	Tcb-Bank 96 Class A Financial Bond	2014.09.28	200,000	0.84% Note 5	200,000	"
"	Tcb-Bank 98 2nd Subordinate Financial Bond	2015.03.28	400,000	2.10%	400,000	"
"	Standard Chartered 98-1 Subordinate Classes Financial Bond	2019.10.28	100,000	2.90% Note 6	100,000	"
"	Hua Nan Bank 96 3rd Subordinate Classes Financial Bond	2014.09.20	200,000	0.84% Note 7	200,000	"
"	China Development Industrial Bank 94-2 Bank Debenture	2013.05.17	200,000	2.03%	199,860	"

Note 1 : The annual interest rate of first 7 years and from 8th to 12th year is 2.70% and 3.20%,

Note 2 : Based on the one-year time savings deposit floating rate of the bank plus 0.65%.

Note 3 : Based on 90-day commercial paper interest rate plus 0.95%.

Note 4 : Floating rate of one-year time deposit plus 0.25%

Note 5 : Based on 90-day commercial paper interest rate plus 0.34%.

Note 6 : The annual interest rate of first 5 years and from 6th to 10th year is 2.90% and 3.40%, respectively

Note 7 : Based on 90-day commercial paper interest rate plus 0.35%.

Investor	Name of the securities	Due date	Face value	Rate	Amount of Securities	
					Book value	pledged
TSEC	China Development Industrial Bank 94-2 Bank Debenture	2013.05.17	\$ 500,000	3.09%	\$ 488,244	None
"	Shin Kong 95-1 Subordinate Classes Financial Bond-B	2016.11.13	200,000	2.50%	202,342	"
"	First Bank stripped 99-2 Subordinate Classes Financial Bond	2017.09.28	200,000	1.50%	200,000	"
"	Land Bank 99-2 Subordinate Classes Financial Bond	2017.12.15	500,000	1.53%	500,000	"
"	Bank SinoPac 97-3 Subordinate Classes Financial Bond	2017.12.09	500,000	1.80%	500,000	"
"	Mega International 99-1 Subordinate Classes Financial Bond	2017.12.24	500,000	1.53%	500,000	"
"	Hua Nan Bank 99-1 Subordinate Classes Financial Bond	2020.11.23	500,000	1.65%	500,000	"
TDCC	Taiwan Cooperative Bank 95 1A	2013.04.24	300,000	Note 1	300,000	"
"	95 First Bank 2A	2012.01.27	50,000	2.45%	50,111	"
"	95 E Sun 1B	2013.08.24	350,000	2.60%	353,074	"
"	96 Land Bank of Taiwan 2	2014.06.26	100,000	Note 2	100,000	"
"	96 Taipei Fubon Bank 1	2013.06.28	100,000	2.90%	100,000	"
"	97 Taipei Fubon Bank 1	2014.01.31	100,000	3.05%	100,000	"
"	97 Taichi 1B	2013.09.13	100,000	3.10%	100,000	"
"	97 Taipei Fubon Bank 3	2015.05.30	200,000	3.09%	200,000	"
"	97 Cathay United Bank 1A	2015.09.19	100,000	2.95%	100,000	"
"	97 First Bank 2	2015.10.21	200,000	3.02%	200,000	"
					<u>11,061,444</u>	

Note 1: The bond's interest rate is the floating rate for one-year time deposits obtained from Taiwan Cooperative Bank plus 0.25%.

Note 2: The bond's interest rate is the floating rate for 90-days CP plus 0.27%.

Corporate bonds						
TSEC	China Development Financial Holding Co., Ltd.98-1 Unsecured A	2015.03.01	200,000	1.80%	200,000	None
"	Mega International 99 Unsecured 1	2013.02.04	200,000	1.45%	200,000	"
"	CPC Corporation, Taiwan 97-1 Unsecured C	2018.12.16	100,000	1.40%	108,794	"
"	CPC Corporation, Taiwan 97-1 Unsecured A	2013.12.12	400,000	1.39%	411,515	"
"	CPC Corporation, Taiwan 98-1 Secured A	2014.12.02	300,000	1.37%	298,071	"
"	CPC Corporation, Taiwan 99-1 Secured B	2017.11.01	100,000	1.29%	100,000	"
"	Formosa Chemical & Fibre Coporation 2008-2 Unsecured	2013.12.08	300,000	1.31%	309,663	"
"	Taiwan Power 95-3 secured B	2013.11.15	400,000	1.40%	408,888	"
"	Taiwan Power 97-8 secured A	2013.12.30	80,000	1.15%	82,336	"
"	Taiwan Power 98-2 secured B	2014.08.31	300,000	1.33%	300,938	"
"	Taiwan Power 98-2 secured A	2012.08.28	600,000	1.17%	598,048	"
"	Taiwan Power 98-3 secured B	2014.10.21	300,000	1.34%	299,995	"
"	Taiwan Power 98-3 secured A	2012.10.21	300,000	1.20%	298,145	"
"	Taiwan Power 99-4 secured B	2017.08.20	300,000	1.40%	304,521	"

Investor	Name of the securities	Due date	Face value	Rate	Book value	Amount of Securities pledged
TSEC	E.SUN Financial Holding Co., Ltd. 94 1st Subordinate Classes Corporate Bond	2012.12.15	\$ 300,000	1.46% Note1	\$ 300,000	None
"	E.SUN Financial Holding Co., Ltd. 96 1st Unsecured Corporate Bond	2014.12.13	200,000	1.12% Note2	200,000	"
"	Mega International 97-2 Unsecured Corporate Bond	2015.12.26	300,000	3.26%	300,000	"
"	Mega International 97-2 Unsecured Corporate Bond	2015.12.26	300,000	1.45%	325,995	"
"	Cathay Financial Holdings 97 Unsecured Subordinate Classes Corporate Bond	2015.12.24	300,000	3.10%	300,000	"
"	Cathay Financial Holdings 98-1 Unsecured Subordinate Classes Corporate Bond	2016.10.08	300,000	2.65%	300,000	"
"	Fubon bank 98-2 Unsecured corporate Bond A	2015.01.28	100,000	1.55%	100,583	"
"	Huanan Bank Subordinate Classes Corporate Bond(95-1)	2013.06.29	150,000	2.20%	152,292	"
"	Shin Kong Bank 97-2 Unsecured Subordinate Classes Corporate Bond A	2015.09.29	300,000	2.60%	313,747	"
TDCC	Taipower 94 3C02 Corporate Bond	2012.12.02	200,000	2.19%	200,000	"
"	Taipower 95 3B Corporate Bond	2013.11.15	200,000	2.20%	200,162	"
"	CPC Corporation, Taiwan 95 1st class B bond	2013.11.28	200,000	2.16%	197,045	"
"	CPC Corporation, Taiwan 97 1st class A bond	2013.12.12	200,000	2.40%	200,000	"
"	Taipower 98 2A Corporate Bond	2012.08.28	300,000	0.97%	300,000	"
"	Taipower 98 3A Corporate Bond	2012.10.21	300,000	0.85%	300,000	"
					<u>7,610,738</u>	

Note 1 : Based on the one-year time deposit floating rate of Directorate General of Postal Remittances and Savings Bank plus 0.4%.

Note 2 : Based on 90-day commercial paper interest rate plus 0.6%.

TDCC	Government bonds					
"	93 Jia 4 Bond	2014.03.04	50,000	2.38%	49,074	None
"	90 Jia 7 Bond	2016.10.19	100,000	3.50%	103,101	"
"	93 Taipei Construction Bond	2014.03.16	200,000	2.85%	200,000	"
"	92 Jia 10 Bond	2013.12.05	50,000	2.88%	50,290	"
"	89 Jia 7 Bond	2020.01.18	100,000	6.25%	124,104	"
"	92 Jia 7 Bond	2013.09.19	50,000	2.75%	49,978	"
"	92 Jia 4 Bond	2013.03.07	150,000	1.88%	147,247	"
"	86 Jiao Jian Jia 10 Bond	2012.01.21	100,000	6.90%	103,361	"
"	88 Yi 1 Bond	2019.04.23	100,000	5.88%	118,882	"
"	89 Jia 4 Bond	2014.10.15	200,000	6.13%	220,701	"
"	90 Jia 3 Bond	2016.03.06	100,000	4.63%	107,419	"
"	90 Jia 6 Bond	2016.08.07	150,000	3.75%	155,560	"
"	92 Jia 3 Bond	2023.02.18	250,000	2.50%	234,351	"
"	97 Jia 1 Bond	2013.01.16	200,000	2.38%	201,278	"
					<u>1,865,346</u>	
TSEC	Beneficiary securities					
"	Cathay Dun Nan Commercial Building REAT	2012.06.25	166,839	2.46%	166,839	None
"	Shin Kong Life Insurance REAT No.3	2012.02.08	84,811	2.21%	84,811	"
"	Shin Kong Life Tun Nan Building CMBS	2012.06.22	128,160	2.40%	128,160	"
"	Polaris Securities CBO 95-1	2013.02.18	90,861	2.30%	90,865	"
TDCC	Shin Kong Life Tun Nan building CMB Securities A	2012.06.22	38,448	2.40%	38,442	"
"	Shin Kong Life Tun Nan building CMB Securities B	2012.06.22	10,000	2.68%	10,000	"
					<u>519,117</u>	
TESC	Commercial papers under repurchase agreement					
"	Taishin Bank ABCP	2013.02.13	-	2.25%	198,884	"
	Total held-to-maturity financial assets-noncurrent				<u>\$ 21,255,529</u>	

(6) Financial assets carried at cost-noncurrent

<u>Investor</u>	<u>Name of the securities</u>	<u>Nature of securities</u>	<u>Units/Shares (in thousand)</u>	<u>Book value</u>	<u>Amount of Securities pledged</u>
TSEC	Taiwan International Futures Exchange Corporation	Stock	13,362	\$ 100,000	None
"	Taipei Financial Center Corporation	"	83,853	838,528	"
				938,528	
				(116,876)	
				\$ 821,652	
TDCC	Taiwan International Futures Exchange Corporation	Stock	17,371	\$ 130,000	None

Note : An investment loss of \$300,000 was recognized for the investment in Taipei Financial Center Corporation for the year ended 31st December 2004. In addition, an impairment loss of \$42,696 and \$74,180 were recognized in 2007 and 2006, respectively, based on the net worth stated in its financial statements.

(7) Long-term equity investments accounted for under the equity method

<u>Investor</u>	<u>Name of the securities</u>	<u>Nature of securities</u>	<u>Relationship with the Company</u>	<u>Units/Shares (in thousand)</u>	<u>Book value</u>	<u>Shares held by the Company</u>	<u>Market Value or Net Value of the Stock Rights</u>	<u>Amount of Securities pledged</u>
TSEC	Taiwan Ratings Co.	Stock	The investee company accounted for under the equity method	1,399	\$ 27,430	19.99%	\$ 27,430	None
TDCC	"	"	"	1,330	26,072	19.00%	26,072	"
TWCA	"	"	"	1	10	0.01%	-	"
					\$ 53,512			

(8) Operations guarantee deposits

<u>Investor</u>	<u>Name of the securities</u>	<u>Due Date</u>	<u>Face Value</u>	<u>Rate</u>	<u>Book value</u>
TSEC	Taishin Bank 94 4th subordinate Classes Financial Bond	2017.06.06	\$ 100,000	2.70% Note 1	\$ 100,000
"	Taishin Bank 94 4th subordinate Classes Financial Bond	2017.06.06	200,000	1.76% Note 2	200,000
					\$ 300,000

Note 1 : The annual interest rate of first 7 years and from 8th to 12th year is 2.70% and 3.20%, respectively.

Note 2 : Based on the one-year time savings deposit rate of the bank plus 0.65%.

(9) Refundable deposits

<u>Investor</u>	<u>Name of the securities</u>	<u>Due Date</u>	<u>Face Value</u>	<u>Rate</u>	<u>Book value</u>
TSEC	90 Jia I Bond	2011.01.09	3,000	3.002%	\$ 3,001

d) Acquisition or sale of the same security with the accumulated cost exceeding \$100 million or 20% of the Company's paid-in capital during the year ended 31st December 2010

Investor	Name of the securities	General ledger account	Counter party	Balance as at 1st January 2010		Additions		Disposals			Balance as at 31st December 2010			
				Number of shares (in thousand)	Amount	Number of shares (in thousand)	Amount	Number of shares (in thousand)	Sales price	Book value	Gain (loss) from disposal	Number of shares (in thousands)	Amount	Note
TSEC	Yuanta Duo Fu Equity Fund	Available-for-sale financial assets-current	-	1,170	\$ 30,000	2,205	\$ 91,861	2,341	\$ 97,913	\$ 75,931	\$ 21,982	1,034	45,930	
"	Yuanta Mainstream Equity Fund	"	-	4,370	60,000	8,869	164,026	9,740	160,519	142,013	18,506	3,999	82,013	
"	Yuanta Wan Tai Bond Fund	"	-	152,773	2,210,000	-	-	118,210	1,713,813	1,710,000	3,813	34,562	501,669	Note 1
"	Jih Sun Bond Fund	"	-	-	-	14,183	200,000	14,183	200,221	200,000	221	-	-	
"	IBT Ta Chong Bond Fund	"	-	36,902	500,000	-	-	36,902	500,904	500,000	904	-	-	
"	IBT Bond Fund	"	-	18,880	188,800	-	-	18,880	229,018	188,800	40,218	-	-	
"	Grand Cathay Twin-core Global Integration Bond Fund	"	-	10,000	100,000	10,000	85,200	20,000	173,100	185,200	( 12,100)	-	-	
"	SinoPac Balance 2 Fund	"	-	3,660	50,000	6,819	164,489	7,320	177,557	132,245	45,312	3,158	82,245	
"	Grand Cathay Bond Fund	"	-	45,043	600,000	16,101	215,000	53,644	716,601	715,000	1,601	7,500	100,338	Note 1
"	SinoPac Balance Fund	"	-	3,831	50,000	7,033	163,837	7,663	179,968	131,919	48,049	3,201	81,919	
"	Mega Diamond Bond Fund	"	-	164,257	1,958,147	12,572	150,000	143,420	1,714,310	1,710,298	4,012	33,409	400,339	Note 1
"	ING Bond Fund	"	-	62,248	970,000	-	-	62,248	972,185	970,000	2,185	-	-	
"	PCA Well Pool Fund	"	-	192,622	2,500,000	-	-	154,103	2,003,354	2,000,000	3,354	38,519	501,726	Note 1
"	PCA Balanced	"	-	8,919	150,000	11,534	204,305	17,838	315,585	303,229	12,356	2,615	51,076	
"	Prudential Financial Small&Medium Capital Fund	"	-	-	-	2,931	100,000	1,535	54,941	50,000	4,941	1,397	50,000	
"	Prudential Financial Bond Fund	"	-	19,825	300,000	-	-	6,608	100,065	100,000	65	13,216	200,625	Note 1
"	FineBridge Taiwan Bond Fund	"	-	45,573	600,000	-	-	37,979	500,930	500,000	930	7,594	100,302	"
"	Cathay United Bank Lucky Trust Global ETF Collective Investment Trust Account	"	-	9,999	100,000	10,378	89,277	20,377	182,592	189,277	( 6,685)	-	-	
"	Cathay Taiwan Quantitative Fund	"	-	4,329	30,000	8,113	78,788	8,658	84,459	69,394	15,065	3,784	39,394	
"	Cathay Bond Fund	"	-	-	-	167,288	2,000,000	167,288	2,002,233	2,000,000	2,233	-	-	
"	NITC Taiwan Bond Fund	"	-	50,742	740,000	-	-	41,112	601,089	600,000	1,089	9,630	141,045	Note 1
"	NITC Bond Fund	"	-	4,990	850,000	5,867	1,000,000	10,857	1,853,720	1,850,000	3,720	-	-	
"	UPAMC Quality Growth	"	-	-	-	5,950	100,000	3,154	56,389	50,000	6,389	2,796	50,000	
"	Fubon Taiwan Strategy 1 ETF Private Equity Fund	"	-	30,000	300,000	9,461	100,000	-	-	-	-	39,461	441,171	Note 1
"	Fubon Chi-Hsiang Fund	"	-	166,645	2,500,000	-	-	166,645	2,504,156	2,500,000	4,156	-	-	
"	FK Templeton Glo. Smaller Companies Fund	"	-	-	-	4,046	100,000	2,117	54,879	50,000	4,879	1,929	50,000	
"	Fuh-Hwa Bond Fund	"	-	187,585	2,590,000	-	-	187,585	2,596,552	2,590,000	6,552	-	-	
"	Fuh-Hwa Heirloom No. 2 Balance Fund	"	-	8,577	100,000	8,577	119,111	17,154	241,373	219,111	22,262	-	-	
"	Shinkong Chi-Shin Fund	"	-	40,528	600,000	-	-	33,775	501,061	500,000	1,061	6,753	100,345	Note 1
"	UBS Asian Real Estate Securities Fund	"	-	10,000	100,000	-	-	10,000	58,600	100,000	( 41,400)	-	-	
"	Capital Income Fund	"	-	13,013	200,000	-	-	13,013	200,746	200,000	746	-	-	
"	Capital OTC Fund	"	-	-	-	2,124	100,000	1,100	53,746	50,000	3,746	1,024	50,000	

Note 1: Due to valuation adjustment, the ending balance is not equal to the amount of the beginning balance plus (minus) addition amount (disposal amount) during the period.

Investor	Name of the securities	General ledger account	Counter party	Balance as at 1st January 2010		Additions		Disposals			Balance as at 31st December 2010			Note
				Number of shares (in thousand)	Amount	Number of shares (in thousand)	Amount	Number of shares (in thousand)	Sales price	Book value	Gain (loss) from disposal	Number of shares (in thousands)	Amount	
TSEC	Allianz Global Investors Global Diversified Quantitative Fund	Available-for-sale financial assets-current	-	10,000	\$ 100,000	10,000	\$ 84,500	20,000	\$ 173,800	\$ 184,500	(\$ 10,700)	-	-	-
"	JF (Taiwan) Bound Fund	"	-	57,112	900,000	-	-	19,070	301,701	300,000	1,701	38,042	601,839	Note 1
"	JF (Taiwan) Micro Fund	"	-	2,625	30,000	4,845	90,814	5,249	99,082	75,407	23,675	2,220	45,407	
"	JF (Taiwan) Balanced Fund	"	-	3,357	50,000	6,446	130,380	6,714	136,020	115,190	20,830	3,090	65,190	
"	JP(Taiwan)Global Focus Fund	"	-	20,000	200,000	37,160	290,000	39,877	339,271	345,000	( 5,729)	17,282	145,000	
"	UNION Bond	"	-	-	-	7,927	100,000	7,927	100,042	100,000	42	-	-	
"	Polaris PMAX EFT Privite Fund	"	-	30,000	300,000	-	-	5,000	42,750	50,000	( 7,250)	25,000	245,000	Note 1
"	Polaris Global REITs Fund	"	-	7,424	100,000	-	-	7,424	53,155	100,000	( 46,845)	-	-	
"	Polaris De-Li Fund	"	-	77,000	1,200,000	-	-	77,000	1,202,671	1,200,000	2,671	-	-	
"	Polaris De-Bao Fund	"	-	55,770	640,000	-	-	55,770	641,000	640,000	1,000	-	-	
"	Yuanta unsecured Subordinate Classes Financial Bond	Held-to-maturity financial assets-noncurrent	-	-	-	300,000	300,000	-	-	-	-	300,000	300,000	
"	E.Sun Bank 99-1 Subordinate Classes Financial Bond	"	-	-	-	400,000	400,000	-	-	-	-	400,000	400,000	
"	China Development Financial Holding Co., Ltd.98-1 Unsecured A	"	-	-	-	200,000	200,000	-	-	-	-	200,000	200,000	
"	Mega International 99 Unsecured 1	"	-	-	-	200,000	200,000	-	-	-	-	200,000	200,000	
"	CPC Corporation, Taiwan 97-1 Unsecured A	"	-	-	-	400,000	415,054	-	-	-	-	400,000	411,515	Note 2
"	CPC Corporation, Taiwan 98-1 Secured A	"	-	-	-	300,000	297,708	-	-	-	-	300,000	298,071	"
"	Formosa Chemicals & Fibre Corporation 97-2 Unsecured	"	-	-	-	300,000	311,824	-	-	-	-	300,000	309,663	"
"	Taiwan Power 95-3 unsecured B	"	-	-	-	400,000	411,878	-	-	-	-	400,000	408,888	"
"	Taiwan Power 98-2 secured B	"	-	-	-	300,000	301,131	-	-	-	-	300,000	300,938	"
"	Taiwan Power 98-3 secured B	"	-	-	-	300,000	299,993	-	-	-	-	300,000	299,995	"
"	Fubon Bank 98-2 unsecured A	"	-	-	-	100,000	100,692	-	-	-	-	100,000	100,583	"
"	Shin Kong Bank 97-2 unsecured Subordinate Classes Financial Bond A	"	-	-	-	300,000	315,698	-	-	-	-	300,000	313,747	Note 2
"	First Bank stripped 99-2 Subordinate Classes Financial Bond	"	-	-	-	200,000	200,000	-	-	-	-	200,000	200,000	
"	Hua Nan Bank 99-1 Subordinate Classes Financial Bond	"	-	-	-	500,000	500,000	-	-	-	-	500,000	500,000	
"	Bank SinoPac 98-1 Subordinate Classes (G11085)	"	-	-	-	500,000	500,000	-	-	-	-	500,000	500,000	
"	Land Bank 99-2 Subordinate Classes Financial Bond	"	-	-	-	500,000	500,000	-	-	-	-	500,000	500,000	
"	Mega International 99-1Subordinate Classes Financial Bond	"	-	-	-	500,000	500,000	-	-	-	-	500,000	500,000	
"	Taiwan Power 97-8 secured (B903TB)	"	-	-	-	80,000	82,669	-	-	-	-	80,000	82,336	Note 2
"	CPC Corporation, Taiwan 97-1unsecured 1C	"	-	-	-	100,000	109,199	-	-	-	-	100,000	108,794	Note 2
"	Taiwan Power 99-4 secured B(B903U5)	"	-	-	-	300,000	304,693	-	-	-	-	300,000	304,521	Note 2
"	CPC Corporation, Taiwan 99-1secured B(B718G2)	"	-	-	-	100,000	100,000	-	-	-	-	100,000	100,000	
"	Mega International 97-2 unsecured Subordinate Classes (B95354)	"	-	-	-	300,000	326,437	-	-	-	-	300,000	325,995	Note 2

Note 1: Due to valuation adjustment, the ending balance is not equal to the amount of the beginning balance plus (minus) addition amount (disposal amount) during the period.

Note 2: Due to amortization of discount or premium at the end of period, the ending balance is not equal to the amount of the beginning balance plus (minus) addition amount (disposal amount) during the period.

c) Acquisition of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended 31st December 2010: None

f) Disposal of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended 31st December 2010: None



g) Purchases from or sales to related parties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended 31st December 2010: None

h) Derivative financial instruments undertaken during the year ended 31st December 2010: None

B. Related information of investee companies for the year ended 31st December 2010

Investor	Investee	Address	Initial investment amount		Major operating activities	Holding Status			Net income (loss) of the investee	Investment income (loss) recognized by the Company	Note
			At the end of this period	At the end of last period		No. of shares (in thousand)	Ownership (%)	Book value			
TSEC	Taiwan Ratings Co.	49F., No.7, Sec. 5, Sinyi Rd., Taipei City	\$ 15,045	\$ 41,032	Credit rating services	1,399	19.99%	\$ 27,430	\$ 43,529	\$ 8,701	The investee company accounted for under the equity method
TDCC	"	"	13,300	38,000	"	1,330	19.00%	26,072	43,529	8,271	"
TWCA	"	"	10	10	"	1	0.01%	10	43,529	-	The investee company accounted as financial assets carried at cost-noncurrent.